CENTRAL BANK OF SOMALIA

ANNUAL REPORT

2017

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ANNUAL REPORT 2017

ECONOMIC RESEARCH AND STATISTICS DEPARTMENT

2017

Annual Report 2017

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LIST OF ACRONYMS

CPI	Consumer Price Index
RDNA	Rapid Drought Needs Assessment
FAO	Food and Agriculture Organization
AML/CFT	Anti-money Laundering and Combating Financing of Terrorism
CBS	Central Bank of Somalia
FGS	Federal Government of Somalia
GDP	Gross Domestic Product
UN	United Nations
UAE	United Arab Emirates
US	United States of America
IMF	International Monetary Fund
FMS	Federal Member States
UAE	United Arab Emirates
AFDB	African Development Bank
WEO	World Economic Outlook
TA	Technical Assistance
DMU	Debt Management Unit
MDRI	Multilateral Debt Relief Initiative
HIPC	Heavily Indebted poor Countries
MTBS	Money Transfer Business Service
SOS	Somali shillings
SMP	Staff Monitored Program
LPG	Liquefied Petroleum Gas
BOD	Board of Directors
MOF	Ministry of Finance
OAG	Office of the Accountant General
MDAs	Ministries Departments and Agencies
SFMIS	Somali Financial Management Information System
TSA	Treasury Single Account
IDA	International Development Association
IFIs	International Financial Institutions

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GOVERNOR'S MASSAGE

Central Bank of Somalia has undertaken positive reform momentum in the development and supervision of financial sector of the country.

With support from international financial institutions, the Bank has issued important prudential regulations and manuals aimed for greater financial stability, financial development and financial inclusion.

To unleash the potential inward financial flows from international financial institutions, the Central Bank of Somalia is actively engaging the ongoing IMF Staff Monitored Program to help Somalia reach debt relief under the HIPC Initiative.

Over the past four years, the capacity of the Central Bank of Somalia to regulate the financial sector has improved significantly. The bank have recently completed on-site examination on commercial banks and Money Transfer Business services (MTBs).

It is really a significant step taken since it's reopening in 2007. The Bank is very cognizant that a stronger financial sector and greater financial intermediation are essential to achieve sustained economic growth and poverty reduction. In that essence, a roadmap for financial sector development have been developed and various regulations have been issued to address the bottlenecks facing the financial sector including the issues related to correspondent banking relationship.

The economy is growing steadily despite the recent drought. The real GDP growth slowed down to 2.3 percent, and inflation increased to 5 percent. Growth forecast in 2018 is projected around 3 percent and inflation is expected to decline to 2.8 percent. The expected growth momentum is mainly attributable to the vibrant private sector, diaspora remittances and foreign direct investment.

As part of a wider Somali reform initiative, the Central Bank of Somalia is preparing to reissue new Somali shilling banknotes—for the first time in 26 years—to combat the existing massive counterfeiting in the country and to restore confidence in the financial sector and the national currency. The Bank has completed a critical roadmap for currency reform. The process that will take into two faces will help the CBS achieve macroeconomic policies aimed for financial and price stability, develop monetary policy, exchange rate policy and foreign reserve. This will reduce the rampant counterfeits currently in the market which affects negatively to the poor people and the economy at large.

We will continue working with international financial institution and engage bilateral and multilateral relations with regional and international organization to build the capacity of the Bank and its staff which is a key in the achievement of the strategic goals.

I would like to acknowledge the role of members of the Central Board of Directors whose timely and effective guidance has strengthened the governance of the Central Bank of Somalia.

I would also acknowledge the dedication of staff for their continued hard work which has helped CBS to enhance its performance across the board.

Finally, I urge the CBS employees to continue their efforts to take the central bank to new heights.

Mr. Bashir Issa Ali

Governor

WORLD ECONOMY

1. WORLD ECONOMY

Global economic output keeps growing. Global production is estimated to have increased by 3.7 percent in 2017, which is 0.1 percentage points greater than the fall forecast of and 0.5 percentage points higher than in 2016 (IMF world Economic Outlook, January 2018). Growth pick up was due to significant favorable surprise in Europe and Asia. Global growth forecast for 2018 and 2019 have been revised upward by 0.2 percentage point to 3.9 percent due to an enhanced global growth momentum and the expected impact of the recently approved U.S. tax policy changes.

Due to the anticipated operations in 2017 attributed to the anticipated macroeconomic effect to the tax reform, the US economy has shown an enhancement, in specific the decrease of corporate tax rates and the temporary allowance for complete expenditure of greater anticipated internal demand for investment. Overall, the policy changes are estimated to be positive and to add to growth through 2020, so that U.S. real GDP is 1.2 percent upwards by 2020 than in a projection without the tax policy changes. The U.S. growth forecast has been raised from 2.3 percent to 2.7 percent in 2018 and from 1.9 percent to 2.5 percent in 2019.

The growth rate of the Eurozone countries was defined, particularly for Germany, Italy, and the Netherlands, reflecting greater external demand and greater national demand momentum. Spain's growth was mildly marked down for 2017, reflecting the impacts of enhanced political uncertainty on trust and demand.

The growth forecast for 2018 and 2019 has also been revised up for other advanced economies, reflecting in particular stronger growth in advanced Asian economies, which are especially sensitive to the outlook for global trade and investment. The growth forecast for Japan has been revised up for 2018 and 2019, reflecting upward revisions to external demand, the supplementary budget for 2018, and carryover from stronger-than-expected recent activity.

Emerging and developing Asia will grow at around 6.5 percent over 2018 and 2019, generally the same pace as in 2017. The region continues to account for over half of world growth. Growth is anticipated to moderate gradually in China (although with a slight upward overhaul of the 2018 and 2019 forecasts, reflecting stronger external demand), pick up in India, and remain broadly stable in the ASEAN-5 region.

In emerging and developing Europe, where growth is now estimated to have surpassed 5 percent in 2017, activity is expected to stay stronger in 2018 and 2019 than earlier expected, boosted by a greater growth prediction for Poland and Turkey in particular. These revisions represent a favorable internal climate with easier economic circumstances and greater euro area export demand, and for Turkey, an accommodative policy stance.

In Latin America, the recovery is expected to reinforce, with growth of 1.9 percent in 2018. This change represents mainly an enhanced outlook for Mexico and a firmer recovery in Brazil, and favorable effects of stronger commodity prices and easier financing conditions on some commodity-exporting countries. These upward revisions more than offset further downward revisions for Venezuela.

Growth in the Middle East, North Africa, Afghanistan, and Pakistan region is also predicted to pick up in 2018 and 2019, but remains restrained at around 3.5 percent. While stronger oil prices are helping a recovery in domestic demand in oil exporters, including Saudi Arabia, the fiscal adjustment that is still needed is projected to weigh on growth prospects.

The growth pickup in Sub-Saharan Africa (from 2.7 percent in 2017 to 3.3 percent in 2018 and 3.5 percent in 2019) is broadly as expected in the fall, with a modest upgrade to the growth forecast for Nigeria but more subdued growth prospects in South Africa, where growth is now anticipated to remain below 1 percent in 2018–19, as increased political uncertainty weighs on confident. Table 1 below summaries actual and projected economy outlook in 2016-2019.

Table 1 :- Actual and Projected Output in Selected Countries/Regions (Per Cent Change)

	Actual		Projections		Difference from October projections	
Country/Region	2016	2017	2018	2019	2018	2019
World Output	3.2	3.7	3.9	3.9	0.2	0.2
Advanced Economies	**1.7**	**2.3**	**2.3**	**2.2**	**0.3**	**0.4**
United States	1.5	2.3	2.7	2.5	0.4	0.6
Euro area	1.8	2.4	2.2	2.0	0.3	0.3
Japan	0.9	1.8	1.2	0.9	0.5	0.1
United Kingdom	1.9	1.7	1.5	1.5	0.0	-0.1
Emerging Markets and Developing Economies	**4.4**	**4.7**	**4.9**	**5.0**	**0.0**	**0.0**
Emerging and Developing Asia	6.4	6.5	6.5	6.6	0.0	0.1
China	6.7	6.8	6.6	6.4	0.1	0.1
India	7.1	6.7	7.4	7.8	0.0	0.0
Latin America Caribbean	-0.7	1.3	1.9	2.6	0.0	0.2
Brazil	-3.5	1.1	1.9	2.1	0.4	0.1
Sub Saharan Africa	1.4	2.7	3.3	3.5	-0.1	0.1
South Africa	0.3	0.9	0.9	0.9	-0.2	-0.7
Nigeria	-1.6	0.8	2.1	1.9	0.2	0.2
Middle east and north Africa	4.9	2.5	3.6	3.5	0.1	0.0

Source: International Monetary Fund, 2018

1.1 Global Financial Stability

The Global Financial Stability Report (GFSR) of the IMF October 2017 states that the global financial system continues to reinforce in reaction to exceptional policy assistance, legislative improvements, and cyclical growth upturn.

Because of enhanced capital and liquidity buffers, global bank balance sheets are stronger in the midst of tighter regulation and increased market scrutiny. However, some banks are still grappling with legacy issues and business model challenges, where progress has been uneven.

The environment of continuing monetary accommodation - necessary to support activity and boost inflation - may lead to a continued search for yield where there is too much money chasing too few yielding assets, pushing investors beyond their traditional habitats. As yield search intensifies, vulnerabilities shift to the non-bank industry and risks to the market increase.

This can lead to a further reduction in market risk compensation and greater non-financial leverage. These challenges must be managed carefully to avoid putting growth at risk. Policymakers at both the national and global level will have to strengthen the financial and macroeconomic policy mix.

1.2 Remittance to Developing Countries

Remittance to low and middle-income courtiers has increased to 4.8 percent in 2017 to US$450 billion after two consecutive years of decline. The cyclical recovery observed in Europe, Russia, and the United States is probable to profit from this small recovery. But burdensome laws and anti-immigration feelings continue to restrict the development of remittances in many migrant-destination nations.

Remittance flows in U.S. dollar terms seem to be affected by the higher valuation effects of a weakening of the U.S. dollar against the Euro and the Ruble. In the Gulf Cooperation Council (GCC) countries—major destinations for low-skilled migrants from East and South Asia—fiscal tightening due to low oil prices, and policies discouraging the recruitment of foreign workers, have dampened outward remittance flows.

Feelings of anti-immigration have become more widespread, affecting nations at distinct rates of revenue and in distinct area. It is commonly thought that voters' concerns about immigration affected the results of Brexit and the U.S. elections.

In the European Union (EU), public surveys discloses a prevalent perception of migration as one of the most important challenges facing society today. Thailand and Malaysia have been cracking down on undocumented migrants, and have recently started a regularization program. There is also large scale return of Afghan refugees from Pakistan. Countries in Latin America are also in the process of toughening their migration policies. Nations are discouraging the hiring of foreign workers, cracking down on undocumented workers, and tightening norms for refugees. This is increasing the potential for large-scale return migration, posing challenges for both origin and destination countries. This also has the potential to dampen remittance flows, especially through formal channels.

De-risking—when international correspondent banks close the bank accounts of money transfer operators (MTOs), to avoid risks of money laundering and financial crime—continues to place regulatory burdens on MTOs, especially smaller and newer players. This is averting the dispersal of newer technologies and innovative remittance platforms. Furthermore, the persistence of exclusive arrangements between state-run agencies, such as post offices, and large remittance companies creates noncompetitive market structures. This raises remittance costs and diverts remittances to informal channels, thereby hindering their macroeconomic benefits.

Remittances are anticipated to boost by 10 percent to Sub-Saharan Africa, led by Nigeria, mainly due to the devaluation of the naira. On the back of the comparatively strong U.S. economy, Latin America and the Caribbean are anticipated to record a powerful growth rate of 6.9 percent in 2017.

Remittance flows to Europe and Central Asia are anticipated to record an 8.6% U.S. dollar terms. This growth appears to be an artifact of both the low base, given three years of decline, and of ruble/US$ exchange rate movements.

In the first half of 2017, outgoing remittances from Russia, the main source of remittances to Central Asian countries, decreased in ruble terms, due to the appreciation of the ruble against the U.S. dollar. Variations in the recovery of regional remittance flows mark a continuation of the "new normal" of slow growth—cyclical upswing and exchange rate effects partially offset by structural constraints.

In 2017, the top five remittance recipient countries are anticipated to be India, China, the Philippines, Mexico, and Nigeria. As a share of gross domestic product (GDP) for 2017, the top five smaller recipients countries are —the Kyrgyz Republic, Haiti, Tajikistan, Nepal, and Liberia.

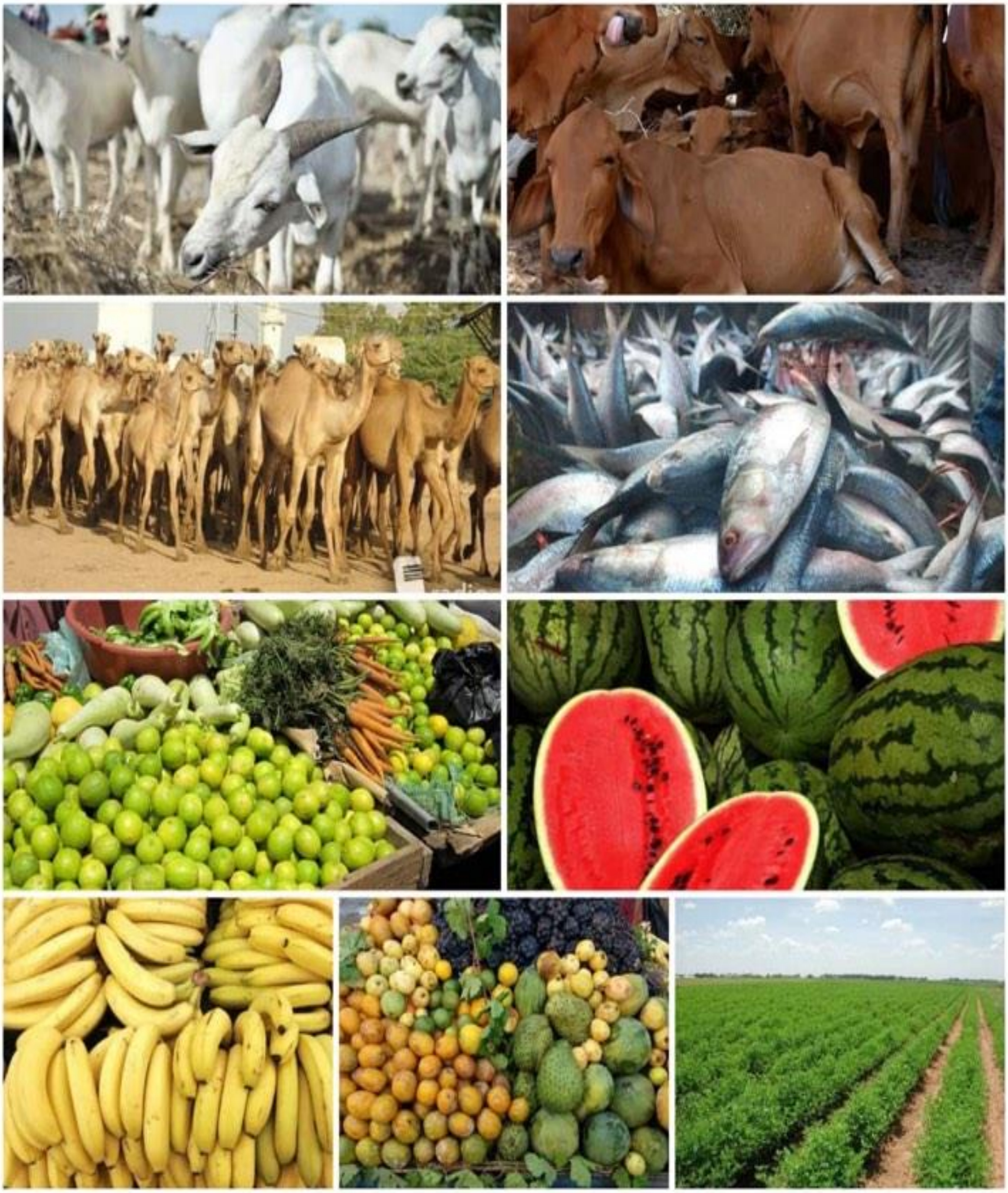
Given the global economic outlook, remittances to LMICs are predicted to grow at about 3.5 percent in 2018, to $466 billion (table 2). Risks to this outlook, however, are mainly on the downside. No alternatives are yet in sight to de-risk correspondent banks or to feelings about anti-migration and restrictive migration policies.

Table 2: Remittance flows to lower and middle income courtiers

Region	2010	2014	2015	2016	2017p	2018p	2019f
	($billions)						
Low and Middle Income	**341.1**	**443.8**	**439.1**	**429.4**	**450.1**	**466.0**	**481.0**
East Asia and Pacific	95.9	121.2	125.9	122.7	128.0	132.4	137.3
Europe and Central Asia	**37.**8	51.7	40.5	39.5	42.9	45.8	47.9
Latin America and Caribbean	**56.6**	64.5	68.4	73.6	78.6	81.5	84.5
Middle East and North Africa	39.0	54.1	51.2	48.9	51.2	52.7	54.3
South Asia	82.0	115.8	117.6	110.4	111.6	114.4	117.5
Sub-Saharan Africa	29.9	36.5	35.4	34.4	37.8	39.2	39.6
World	**467.6**	**597.7**	**581.9**	**573.6**	**595.7**	**615.7**	**640.2**
Developing countries	335.1	435.4	431.5	421.9	442.0	457.2	471.4

Source: World Bank group, Migration and development, 2017.
Note: p= projections f= forecast

DOMESTIC ECONOMY



2. DOMESTIC ECONOMY

Somalia economy is showing positive economic growth momentum despite experiencing two decades of civil war. Somalia has sustained formal and informal economy based mainly on livestock, remittance from abroad, expanding banking sector and telecommunications. It is difficult to gauge the size or growth of the economy due to a dearth of formal government statistics and the recent civil war, however, outstanding progress has been evidenced in macroeconomic recovery and in recent past, Somalia has achieved important milestones in building peace and strengthening its economy. A successful political transformation in 2012 and the end of transition period marks critical juncture on post conflict political stability and economic recovery that lasted nearly 8 years.

Domestic economy is facing challenging situation from recurrent drought that caused critical food insecurity in late 2016 and early 2017 as well insignificant rainfall situation across almost all parts of the country. Improved rainfall during 2017 Deyr season has eased drought conditions in many parts of Somalia. As drought conditions had improved, there has been a relative improvement in food security conditions in many parts of Somalia since 2nd quarter of 2017 and the risk of Famine has consequently declined. Sustained large scale humanitarian assistance has also contributed to this.

As indicated in table 3, Nominal GDP in the reporting period of 2017 is estimated about US$7,052 million up from US$6,767 million in 2016, representing 4.2 percent increase over 2016. GDP growth rate is expected to accelerate in 2018, due to expectation of a strong rainy season and continued strong performance in the telecommunication, construction and service sectors.

Somalia economy is consumption driven financed mainly through remittances, foreign direct investment from Somalia Diaspora and donor grants. Market inflation rose by 5.3 percent in 2017 and projected to slow down in 2018. Lower oil prices and dollarization had somewhat helped to contain inflation, though expected food shortages mainly on the agricultural production may cause an increase of prices in the next year.

The projection of the Somalia's national income growth outlook of is expected to remain steady and the inflation is projected to decline. The real GDP growth forecast in 2018-19 is projected at 3.1. The expected growth momentum is mainly attributable to an expansion in private sector, remittances, Foreign Direct Investment and donor funding on development and humanitarian projects. The outlook of the inflation has been revised downward with inflation is expected at 2.8 percent in 2018. On the external sector, current account deficit is projected at 6.3 percent of GDP while trade deficit is projected 48.3 percent of GDP. The deficit is financed on the transfers, mainly on remittance and official grants as well FDI and capital formation.

Table 3: National Income and Prices, 2014-2017

	2014	2015	2016	2017
Nominal GDP in millions of US dollars	5,950	6,659	6,767	7,052
Real GDP, annual percentage change	3.6	3.9	4.4	2.3
Per capita GDP in UD dollars	436	511	504	511
Consumer Price Index (CPI), annual percentage change	1.3	-1.2	0.0	5.3

Source: FGS estimates; and IMF estimates.

Livestock

Somalia livestock export has shown a decline in two consecutive years. In 2017, the value of livestock is exported dropped down to almost US$265.4 million (down from US$359.2 million in 2016) showing a decline of 26 percent over 2016 (table 4). The export of livestock has reached its peak ever in 2015 with an estimate of US$386.5 million.

Table 4: Livestock export

Year	Total Export (Heads)		Export Quality Price		Total value in US$	
Type of the Animal	2016	2017	2016	2017	2016	2017
Camel	70,909	5,781	695	700	49,281,755	4,856,040
Cattle	242,320	90,547	260	300	63,003,200	68,596,920
Shoats	4,409,577	2,666,215	56	60	246,936,312	191,967,480
Total Head	**4,722,806**	**2,862,543**		**Total Value**	**359,221,267**	**265,420,440**

Source: FSNAU, Mogadishu Customs and CBS estimates.

The critical decline is attributable to the following factors; A gulf crisis which has reduced external demand momentum of Somalia livestock exports and recurrence of the devastating draughts that hit the country, causing damages and losses on the livestock sector and livestock deaths due to water and fodder shortages.

Somalia exported around 2.7 million Goats and Sheep (down from 4.4 million in 2016), 90,547 cattle (down from 242,000 in 2016), 5,781 camels (down from 71,000 in 2016).

Somalia's livestock export (live animal, Hides & Skins, chilled meat and livestock products represent over 60 percent of total export of the country and thus, generates a significant foreign earning that offsets partially the payments for imported goods and services. Somalia lost more than 6 million of its livestock population during the drought, the damage in the livestock sector is estimated over US$350 million (Equivalent to the value of export in 2016), in addition to the losses related to the production and productivity of livestock in terms of reduced milk yields and loss of body weight estimated to US$1.2 billion. Somalia livestock sector attracts external demand of live animals from gulf countries, however, lack of diversification in marketing and production lead the industry face internal shocks from recurrent droughts and famine as well external shocks on accused epidemic diseases that cause decline in the export of livestock.

2.1 Agriculture

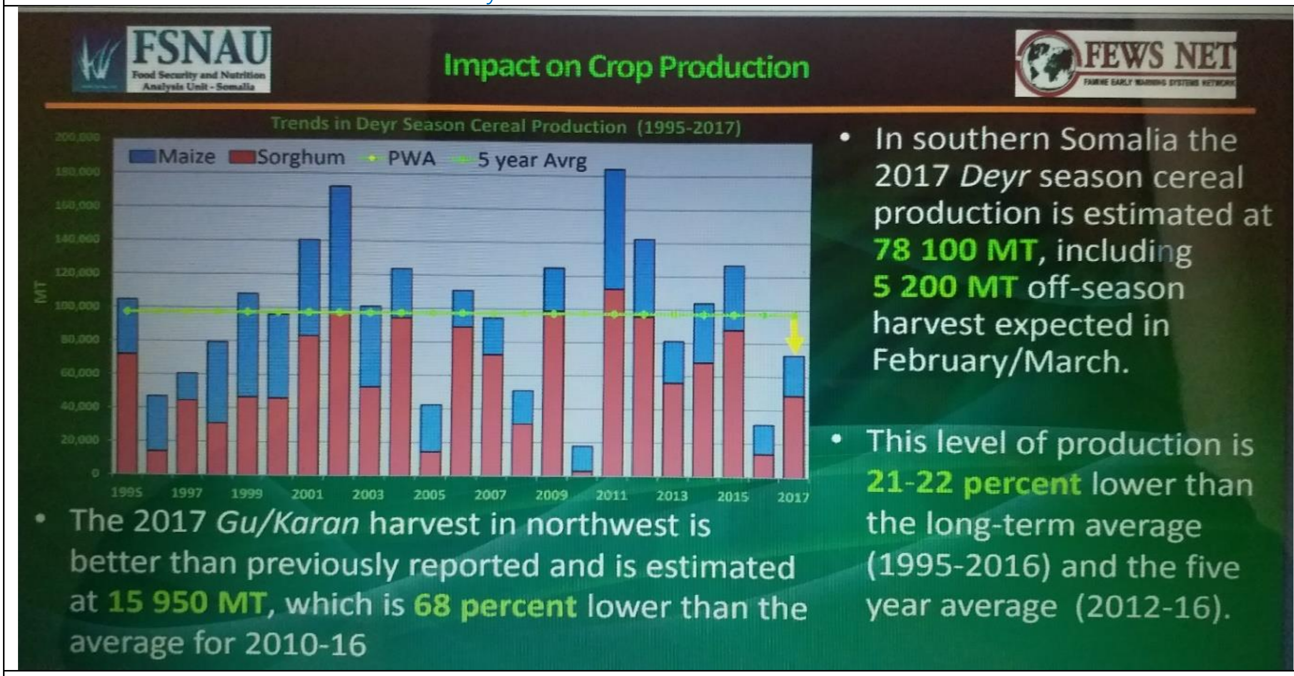
Agriculture including crop and livestock is the most important economic sector. The leading commercial crops in the reporting period of 2017 are; dried lemon which represents the largest and sizable export component within vegetable and fruit category, followed by Sesame and Sesame products.

On recent report from FSNAU in 2017. The rainfall in the Deyr season (Oct to Dec) was significantly below average forecast combined with lower river water levels. The reduction in the rainfall has affected the harvest of cereals to 78,000 metric tons which is almost 21 percent below the last twenty years average and 22 percent below the last five year average.

As reflection on poor harvest in the preceding season of Gu (April – June), most of poor households in agro-pastoral areas have been adversely affected by food insecurity.

The economic performance in the agricultural sector is negatively affected by decades of environmental degradation coupled with recurrent droughts and insecurity in the agricultural zone. The main drivers of this large scale deforestation is mainly due to a massive destruction of acacia trees for charcoal production. This unsustainable practices in the forest cover is the leading factor of the country's weather shocks and droughts. The total damages in agricultural production is estimated around US$62.9 million due to the drought that hit the country in late 2016 and early 2017.

Chart 1: FSNAU-FEWS NET Post Deyr 2017



Source FSNAU-FEWS NET Post Deyr 2017

2.2 Fishery

Somalia has one of the largest coastline in the African Continent and home of the fishing grounds in the world. Somalia's potential production of fish is estimated around 200,000 metric tons per year in sustainable manner without affecting the fishery stock.

According to Ministry of Fisheries and Maritime Resources report 2017, the total catch in Mogadishu and its surroundings is estimated around 1,909431 Kg, equivalent to US$16.8 million. National scale however is estimated around US$26.8 million. Fish production this year (2017) is almost doubled compared to last year (up from US$14.9 million) due to the increased internal demand on fish, coupled by severe drought in most regions of Somalia in reporting period that created shortage of meat and animal products.

2.3 Domestic production

The total value of domestic production in 2017 has surpassed U$300 million. The leading production industry is Foam Industry with annual production worth US$60 million. This is followed by Aluminum Industry with production worth US$58 million annually and the Construction Industry with production worth US$40 million. Other leading industries are Beverage Industry, Plastic Industry and animal products.

2.4 Remittance

Somalia remittance is very crucial component on Somalia Economy representing more 20 percent of the country's Gross Domestic Product (GDP). Remittance is the lifeline of many Somalis and secures livelihood for more than 40 percent of Somalia population. The economy has received about US$1,745 million in the reporting period of 2017 (up from US$1,564 million) registering more than 12 percent increase over 2016.

The Federal Government of Somalia has issued AML/CFT Law to support international efforts to maintain remittance inflow to Somalia. Central Bank of Somalia has also issued set of regulations to enhance the compliance of MTBs on international standards and regulations.

The remittance to Somalia contributes significantly the financing of the country's trade deficit which is equivalent to 39 percent of GDP and services 42 percent of payment on imported commodities.

2.5 Exchange rate Development

Somalia economy is highly dollarized and the Central Bank of Somalia has no control over the supply of the Somali Shilling as the existing notes are counterfeits issued during civil war. The current exchange rate system is classified as, de facto, free floating exchange rate regime. The dollar money is widely used in payments and deposits representing almost 90 percent of the currency in circulation. Somalia shilling is mostly used in rural and remote areas as in commodity markets of live animals, animal products, agricultural products, khat markets and payments of the wages of laborers.

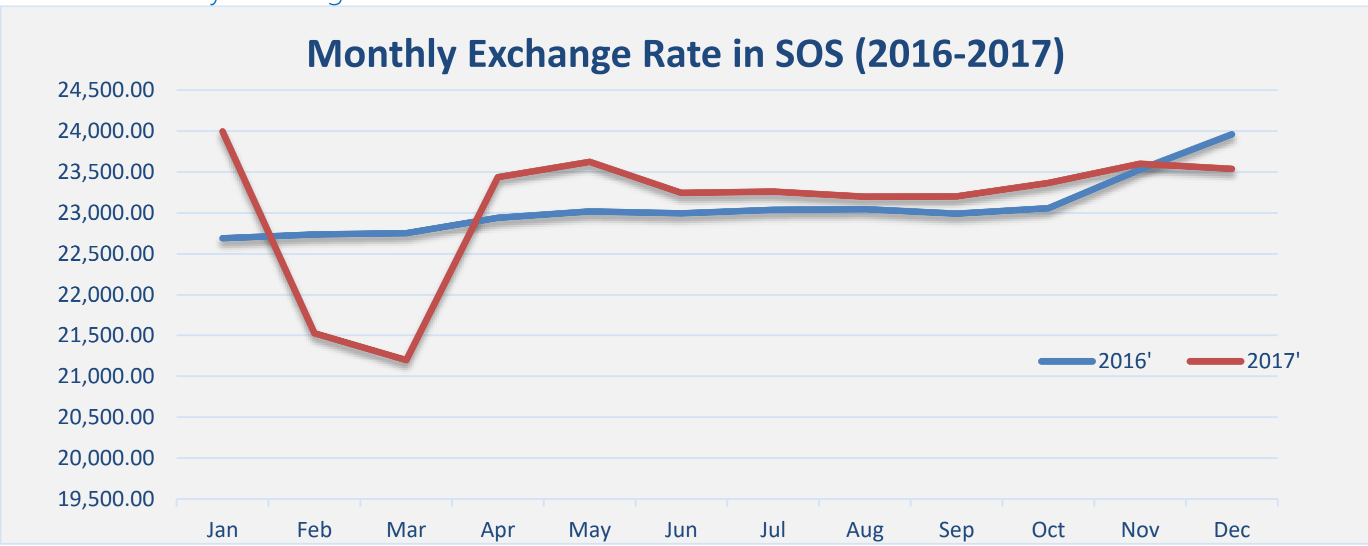
In 2017, Somali Shilling (SOS) exchange rate depreciated against United State Dollars by around 0.12 percent. In average, it is up from SoSh 23,062 in 2016 to SoSh 23,089 as shown in chart 3 below. The depreciation in the shilling is attributable to the recent introduction of bulk counterfeit banknote in Puntland which created exchange rate differences in the main cities of Puntland and Galmudug States of Somalia as well as parts of Hirshabelle and South West States, creating a chaos in exchange markets to complete rejections and violent demonstration in some other markets.

Table 5: Monthly Exchange Rate in SOS

Period	2016	2017
Jan	22,687.69	23,994.07
Feb	22,736.38	21,525.83
Mar	22,751.00	21,197.12
Apr	22,940.42	23,436.92
May	23,016.67	23,621.67
Jun	22,993.08	23,245.00
Jul	23,036.58	23,258.70
Aug	23,043.33	23,197.41
Sep	22,990.40	23,202.60
Oct	23,057.41	23,365.37
Nov	23,527.69	23,600.38
Dec	23,960.77	23,538.85
Average	**23,061.79**	**23,098.66**

Source: CBS, 2016

Chart 2: Monthly Exchange Rate in SOS



Source: CBS, 2016

2.6 Inflation Outlook

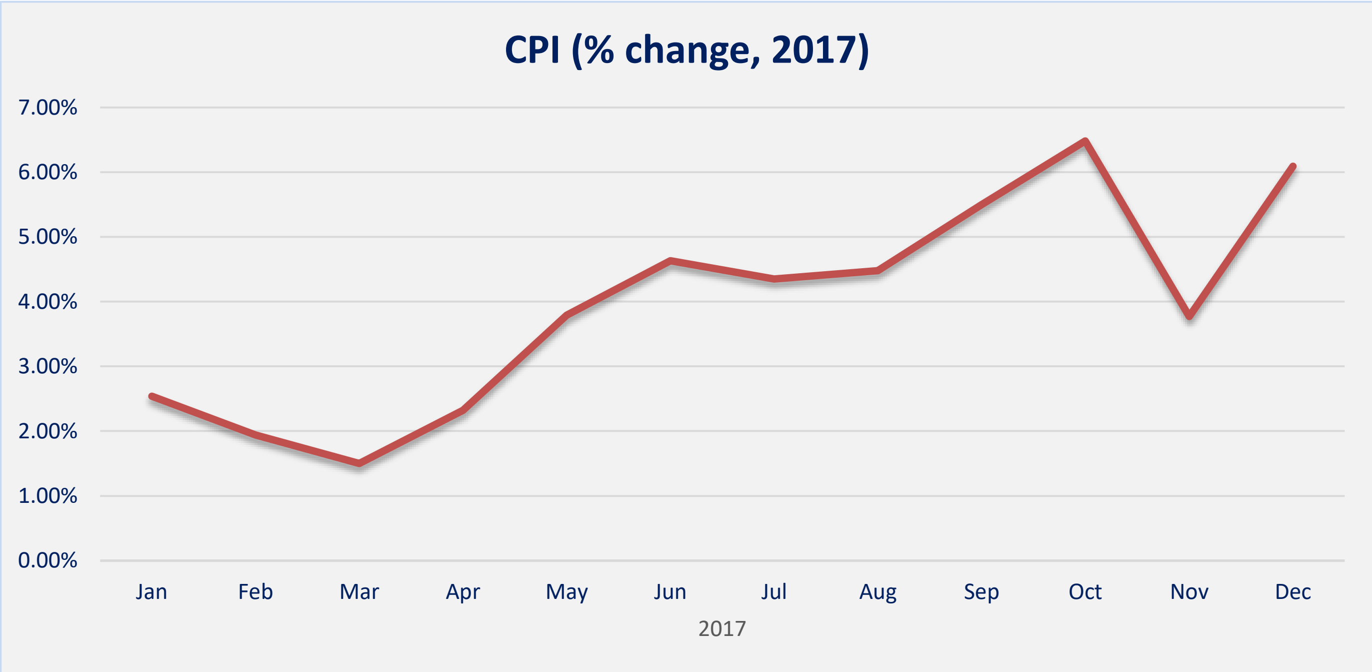
As shown in chart 3 and table 6, overall annual average inflation rate has increased by 5 percent in 2017 from 1.5 percent in 2016. The increase in inflation is associated with rise of price of food and non-food item. Lower oil prices and dollarization had somewhat helped to contain inflation, though As a result of the expected partial recovery of drought in the agriculture sector, inflation rate is projected to ease under 3 percent in 2018.

Table 6: Overall CPI and Inflation Rates

Base year 2014=100 Month/Year	Overall CPI		Inflation Rate	
	2016	2017	2016	2017
Jan	102.9	102.3	2.25	2.54
Feb	102.6	101.6	2.25	1.94
Mar	99.5	101.5	2.25	1.50
Apr	102.7	102.9	2.25	2.32
May	122.8	104.6	2.25	3.79
Jun	99.8	105.6	2.25	4.63
Jul	100	105.7	2.25	4.35
Aug	100.7	105.7	2.25	4.48
Sep	100.1	106.7	2.25	5.50
Oct	106.3	107.3	2.25	6.48
Nov	107.1	107.6	2.25	3.77
Dec	100	107.7	2.25	6.09

Source: MoPED, 2017.

Chart 3: CPI (% change)



Source: MoPED, 2017.

PUBLIC FINANCE DEVELOPMENT

3. PUBLIC FINANCE DEVELOPMENT

3.1 Implementation of Fiscal Policy

Somalia's fiscal situation is improving. The FGS has presented a budget for parliamentary approval for six years in a row. Public expenditures have expanded almost eight fold, from US$35.1 million in 2012 to US$260.1 million in 2017. Government spending depends heavily on multilateral and bilateral donor inflows which often disbursed late or do not materialize, creating uncertainty in budget execution. The actual budget of Federal Government of Somalia in 2017 is presented on the below table.

Table 7: Summary of Revenue and Expenditure 2016-2017 (Millions of US Dollars)

	2016 Actual	2017 Budget	2017 Actual
1. REVENUE	**168.0**	**267.6**	**260.1**
(A) DOMESTIC REVENUE	112.7	164.7	137.6
Tax Revenue	88.6	132.9	113.6
Income and corporate taxes	2.4	6.6	4.0
Taxes on international trade	76.3	86.8	95.0
Other Indirect Taxes	2.9	29.7	8.1
Other taxes	7.0	9.8	6.5
Non-Tax Revenue	24.1	31.8	24.0
(B) DONOR FUNDED	58.4	102.9	122.6
Bilateral Assistance	31.3	18.5	38.1
Multilateral	27.1	84.4	84.5
2. EXPENDITURE	**171.1**	**267.6**	**260.1**
(C) RECURRENT EXPENDITURE	165.1	255.9	247.8
Compensation of employees	55.1	136.4	129.0
Use of goods and services	64.4	87.6	89.7
Grants	9.4	20.6	19.0
Contingency	2.1	2.1	2.3
Repayment of arrears and advances	34.1	9.2	7.8
(D) CAPITAL EXPENDITURE	5.9	11.7	12.3
Capital	5.9	11.7	12.3
3. BALANCE	**0.0**	**0.0**	**0.0**

Source: Ministry of Finance, 2017

3.2. Revenue and Grants

The revenue and grants of the Federal Government of Somalia in the fiscal year of 2017 turn into US$ 260.1 million, a short fall of US$7.5 million over the budgeted amount of US$267.6 million. Revenue mobilization has improved significantly over the past four years. For instance, Domestic Revenue has increased by 36 percent over 2014 to US$114.3 million in 2015, and recorded US$ 137.6 million at the end of 2017. Moreover, tax revenue has increased by US$25 million over 2016 to US$ 113.6 million in 2017. Figures from the Government Financial Statistics had shown that more than 83 percent of collected taxes were earned from custom duties.

3.2.1 Taxes on International Trade:

International trade taxes remain the key source of domestic revenues accounting for 69 percent of the total of domestic revenue in 2017. Trade taxes grew by 20 percent in 2017 to US$95 million, up from 7 percent growth in the previous year. On the other hand, Non-tax revenue have remained the same as previous year (US$24 million).

3.2.2 Income and Corporate Tax:

Personal and corporate income tax significantly increased from US$2.4 million in 2016 to US$4 million in 2017. This shows that the corporate income tax in 2017 has been higher than the same period last year for more than 66 percent due to negotiations that the government made with key taxpayers as part of critical tax measures in 2017 revenue collection. Most importantly, government reached an agreement with telecommunication companies to pay their sales tax obligations retroactively from October 2017 and begin payroll tax collection in November 2017. The telecommunication companies have started paying sales taxes based on self-reported sales figures which the government have committed to auditing to ensure accuracy, and this has resulted domestic revenue (taxes plus fees) as a share of GDP to raise significantly up from 1.7 percent of GDP in 2016 to 2 percent in 2017.

3.2.3 Revenue Mobilizations:

There are possible sources of new revenues, if a number of legal and technical issues could be resolved. Following the takeover of the management of Somali Airspace from the International Civil Aviation Organization (ICAO), Federal Government of Somalia is expected to generate revenue from airspace fees. Government is expecting to raise new revenues from annual fishing licensing fees and telecommunications licensing and spectrum fees.

3.2.4 Donor Grants:

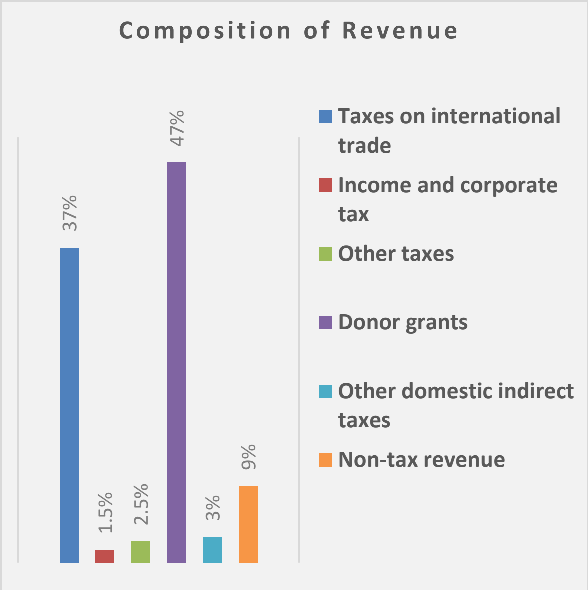
On-budget donor funding, which significantly underperformed in last five years, more than doubled in 2017. Donor funding increased by US$64.2 million over 2016 to US$122.6 million in 2017 (table 7).

The actual budget outperformed the budgeted donor fund by 16 percent during the fiscal year of 2017. Development partners' contributions to the budget have been critical in recent years, which makes difficult to execute the budget as planned by FGS.

Bilateral and multilateral grants remained the second largest source of the Federal Government of Somalia's fiscal receipt in 2017 (47 percent), while taxes on international trades remain the largest government fiscal receipt and it accounts for 37 percent of total budget (chart 4).

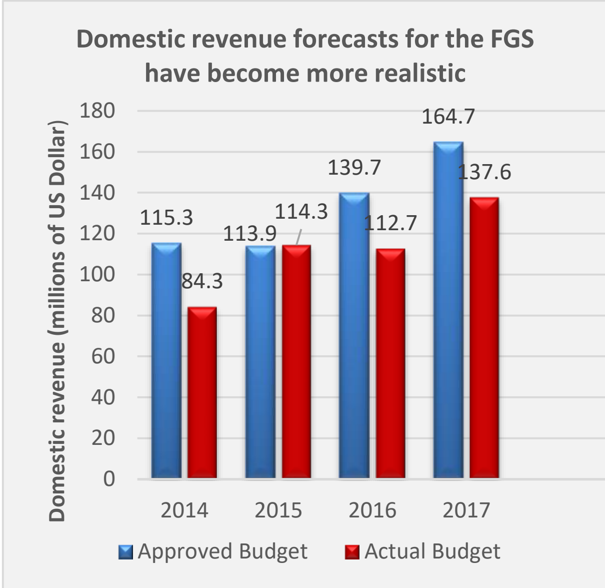
The high dependence of the government on grants and slow progress in broadening the tax base weakened the fiscal framework. At the same time, agreements on tax and customs harmonization with FMS need to be implemented so that the government can proceed with the implementation of a unified tariff rate policy. At around 2 percent of GDP, there is much potential to increase domestic revenues.

Chart 4: Composition of Revenue



Source: Ministry of Finance, 2017

Chart 5: FGS domestic revenue forecasts (2014-2017).

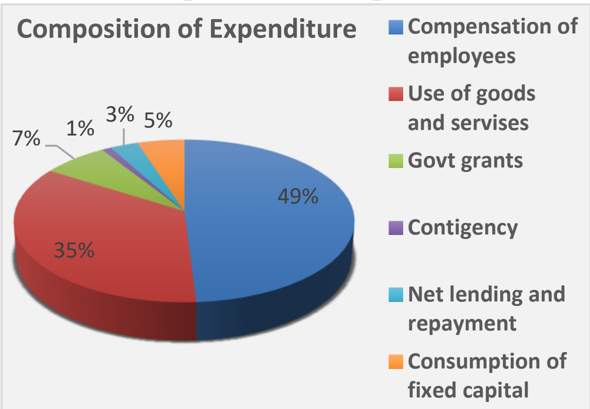


Source: Ministry of Finance, 2017

3.3 Expenditure

On the expenditure side, recurrent expenditures account for almost all expenditure, with capital spending accounting for just 5 percent of total spending in 2017. Unrealistic revenue projections, coupled with weak expenditure controls, contribute to the accumulation of arrears. Civil servant compensation absorbs about one-half of the government budget due, in part, to the increase in the number of civil servants, including police and military. Given the government's overarching objective to improve security, such a trend is expected to continue over the medium term. Compensation of employees and purchases of goods and services consume a significant portion of FGS expenditure. Wages and salaries accounted for 46 percent of expenditure in 2016 and 49 percent in 2017 (chart 6). The second largest category of expenditure is goods and services, which declined slightly from 37 percent of expenditures in 2016 to 35 percent in 2017.

Chart 6: Composition of Expenditure



Source: Ministry of Finance, 2017

EXTERNAL SECTOR

4. EXTERNAL SECTOR

4.1 Balance of Payments

Somalia's external sector position remains weak due to the cost of conflict, including damage to vital infrastructure, security checks, roadblocks, and the shutdown of trade routes. In 2017 the current deficit is estimated around 6.7 percent of GDP slightly higher than in 2016. Current Account deficit is largely driven by imports, estimated at 44 percent of GDP, larger than exports by factor of more than four.

Most of the current account deficit has been financed by remittance (20 percent of GDP), FDI (5.2 percent of GDP) and Official Development Assistance (ODA) in recent years.

4.1.1 Current Account

The current account balance has increased to deficit of US$ 497 million in the year 2017 from a deficit of US$435 million during the preceding financial year (table 8). The deterioration in the current account was mainly attributed by adverse weather conditions that severely reduced agricultural output in late 2016 and early 2017 to drought hit in the country which reduced merchandise trade.

4.1.2 Merchandise Trade

The value export estimates indicate that in 2016 Somali export were US$ 683 million, these decreased to US$, 599 million at the end of 2017. The major categories of export were camel, cattle, shoats, hides and skins, Banana, Oil, Beans, dry Fish, meat and Myrrh.

In 2016 overall imports were estimated to have been around 41 percent of GDP that is US$ 2.8 billion, while in 2017 imports are slightly increased to US$3.2 billion. Major imports include manufactured goods, consumables, petroleum products, Khat and food imports of Sugar, Pasta, wheat flour and Rice which is regarded leading items of Somali imports.

Over the same period, the balance on services has shown a large deficit, in 2016 an estimated of 14 percent of GDP which is US$ 962million. In 2017 services deficit was 14.3 percent of the GDP which is US$ 1,059 million.

4.1.3 Direction of Trade

Somalia's largest trading partners include China, India, the United Arab Emirates (UAE), Yemen, Oman, Saudi Arabia, Kuwait, Qatar, Ethiopia, Oman, Kenya, Turkey and Pakistan.

4.1.4 Income

In 2017, net factor payments abroad were estimated a deficit of $32 Million, which were higher than the US$30 million reported in 2016. In particular income accruing to foreigners was US$73million while income earned by residents rose from US$39 to US$41million in 2017.

4.1.5 Capital and Financial Account

Financial account flows has slightly increased by 6.7 percent to US$ 497 million in the year 2017 compared to US$ 435 million in the year 2016. Inflows were mainly in the form of direct investment and other investment which stood at US$ 384 million and US$ 334 million respectively in the year of 2017 and 2016 (table 8).

Table 8 Balance of Payments 2016-17 (Millions of US Dollars)

	2016	2017
Current account balance	-435	-497
Goods balance	-2,223	-2,672
Exports, f.o.b.	647	599
Imports, f.o.b.	2,869	3,271
Services (net)	-962	-1,059
Service credits	373	393
Service debit	-1,335	-1,452
Income(net)	-30	-32
Current transfers (net)	2,779	3,266
Private(net), Including remittance1	1,348	1,518
Official^2	1,431	1,748
Capital account and financial account of which	435	497
Foreign direct investment	334	384
Errors and omissions	6	0
Overall Balance	6	0
Change in the central bank net foreign assets3	-6	0
Memorandum items		
Nominal GDP (in millions of U.S. dollars)	6,887	7,382
External public debt(in millions of US dollars)4	5,130	5,279
Source: UN comrade; FGS estimates; and fund staff estimates		
1/ 2013 data from Barclays Bank, PLC.		
2/includes direct budget support		
3/ Insurance and technical reserves 4/Excluding Somalia's net position with the IMF		

4.2 Public Debts

Somalia has made an important progress with its development partners, creditors and international financial institutions to resolve the debt problems and to receive debt forgiveness under Heavily Indebted poor Countries (HIPC) initiative.

Based on up-to-date information from more than two-third of creditors, Somalia is owed over US$4.5 billion external public debts equivalent to 65 percent of GDP (table 9), of which US$1.5 billion (21 percent of GDP) to multilateral creditors, mainly, the International Monetary fund (IMF), the World Bank (WB), and the Arab Monetary Fund (AMF). US$2.5 billion (35 percent of GDP) to Paris club creditors, mainly the United States, the United Kingdom, the Russian Federation, France, Italy, Spain, Netherlands and Japan, and US$617 million equivalent to (9 percent of GDP) to non-Paris club countries including the United Arab Emirates, Saudi Arabia, Kuwait Fund & Central Bank, Iraq, Algeria and China (chart 7).

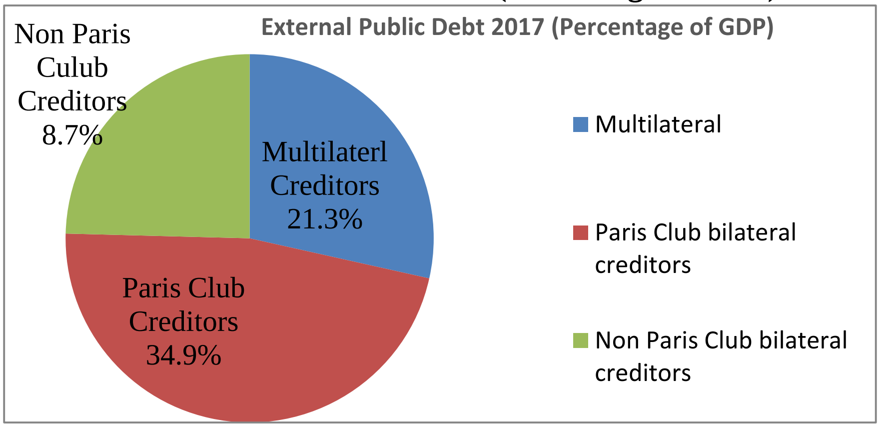
Relations with the international community was normalized and track record of reform implementation and development of adequate policy instruments was established to tackle Somalia's low institutional capacity and fragile security situation to help the country to achieve arrears clearance and debt relief.

Table 9 :-External Public Debt (2013-2017) In Millions of US Dollars

	Prel. 2013	Prel. 2014	Prel. 2015	Prel. 2016	Prel. 2017	Percent of GDP 2017
Total Stock outstanding	4,394	4,394	4,414	4,377	4,585	65
Multilateral	1,556	1,507	1,468	1,442	1,504	21.3
Bilateral creditors	3,566	2,887	2,946	2,935	3,081	43.6
Paris Club bilateral creditors (BC-PC)	2,244	2,249	2,332	2,320	2,464	34.9
Non Paris Club bilateral creditors (BC-NPC)	1,322	638	614	615	617	8.7

Source: IMF & MoF 2017

Chart 7: External Public Debt 2017 (Percentage of GDP)



Source: IMF & MoF 2017

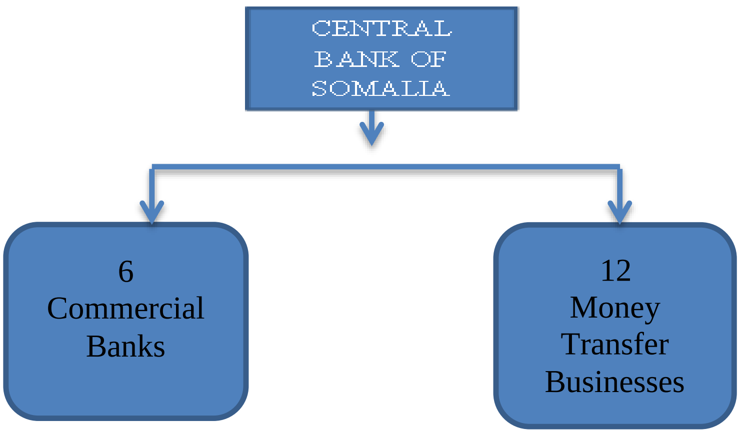
FINANCIAL SECTOR DEVELOPMENT

5. FINANCIAL SECTOR DEVELOPMENT

In exercising its mandate, the Central Bank of Somalia has made tremendous progress in the development of the financial sector. The CBS has introduced set of prudential regulations since 2014 aimed in achieving financial stability in Somalia.

5.1 STRUCTURE OF BANKING SECTOR

As at December 31, 2017, Somalia financial system comprised of the Central Bank of Somalia (CBS), as the regulatory authority, six commercial banks and twelve Money Transfer Businesses (MTBs). All commercial banks and Money Transfer Businesses are privately owned institutions.



The total net assets in the banking sector stood at USD 345.0 Million as at December 31, 2017, and it increased 47 percent when compared to 2016 (table 10).

Table 10:- Assets in Banking Sector

	Dec-2016	Dec-2017	% change
Assets	234,206,728.43	345,012,577.34	47

Source: CBS, 2017.

5.2 Stability of the Financial System

To achieve its mandate, the Central Bank of Somalia sets, enforces and supervises various policy instruments to limit the impact of risks on financial. In particular, financial stability demands well-managed, well-regulated financial sector which serve the needs of the economy and consumers over the long term. The foundations of the Central Bank's approach include the regulatory framework, its supervisory methodology, enforcement and resolution.

The Central Bank of Somalia (CBS) recently completed on-site examinations of Money Transfer Businesses (MTBs), and of banks. This follows a first round of examinations that were completed in 2016.

The examinations are led by the CBS Licensing and Supervision Department, and are part of the CBS' strategy to promote trust and transparency in the Somali Financial industry. Examinations are integral to the CBS' supervision regime, and a key effort to maintain and strengthen remittance flows into Somalia.

Number of prominent International Partners have participated the efforts to rebuild Somalia Financial sector by providing direct technical assistances.

5.3 Financial sector policies

There has been a complete set of financial sector strategy that highlights the key problems that are facing financial sector development and planning reforms to improve the functioning of the sector, including issues related to the withdrawal of correspondent banking relationships, The Financial Reporting Center (FRC) is now working and started reviewing suspicious transactions in December 2017. With continued TA from the IMF, progress has been made on developing regulations for financial sector development; building technical capacity in the areas of commercial bank licensing, regulation, and supervision; and improving transparency and sound commercial banking and financial intermediation in Somalia.

The CBS is planning to finalize the Targeted Financial Sanctions Regulation law. This step will enable them to implement the international obligations of Somalia such as UNSCR 1267, and 1373, and to increase AML/CFT law adoption by MTBs and the overall financial sector.

5.4 Money transfer businesses

1. Amal Express
2. Hodan Global
3. Dahabshil Money Transfers
4. Kaah Money Express
5. Amana Express
6. Bakaal Express
7. Globalex Money Transfer
8. Horyal Express Money Transfer
9. Iftin Express
10. Jubba Express
11. Taaj Express
12. Tawakal Express

5.5 Commercial Banks

1. Amal Bank
2. Dahabshiil Bank International
3. International Bank of Somalia
4. Premier Bank
5. Salam Somali Bank
6. Trust African Bank

MONETARY POLICY

6. MONETARY POLICY

Central Bank of Somalia has not issued any currency during civil war that started in 1991. Since then, hundreds of bulk counterfeit banknotes have been produced outside the country, and in the recent past, printing machines has been established in Somalia to produce low quality paper banknotes into the market. More than 90 percent, of the Somalia Shilling currency in circulation is considered to be a counterfeit. As a result, The Bank faces a daunting challenge of discharging its mandate in a largely dollarized economy, in which it does not have monetary tools to control the money supply in the country, prevent counterfeiting, and support payment systems.

One of the basic functions of the Bank is to protect the value of the Somali Shilling and thus, combat inflation. Due to current circumstances the bank isn't able to perform any concrete monetary policy as the economy is highly dollarized; U.S. dollar banknotes are estimated to represent more than 90 percent of currency in circulation.

Somalia's exchange rate regime is classified as the de facto floating exchange rate controlled by the market. As the consequence, the shilling has lost it's significant functions of money, including, medium of exchange, unit accounts and store of value.

All six licensed commercial banks, MTBs and mobile money transactions are handled in US Dollars. The ongoing efforts towards reintroduction of new Somalia shilling banknote will help the country to set policies such as monetary policy; exchange rate policy and reserve management policy.

6.1 Currency Reform

Currency reform is one of the most important pillars of the financial governance program of the Central Bank of Somalia and the Federal Government of Somalia (FGS). Since its reopening in 2007, and in line with the strenuous efforts of the Government for rebuilding the basic national institutions, the Bank has developed capacity enhancement, initiating dynamic organizational reform, and supporting modernization and development initiatives that are critical for service delivery and restoration of public confidence in the institution.

In the last year, CBS held extensive discussions on the framework of the planning of an entire currency reform. In the recent currency reform consultative missions, IMF staff recommended detailed roadmap for the currency reform. The Currency Core Group (Central Bank of Somalia and Ministry of Finance). CBS addressed all those requirements and came up with detailed roadmap and all benchmarks were satisfied.

The CBS undertook these reforms to combat widespread counterfeiting, which included the development of an anti-counterfeiting strategy and hiring qualified staff and provided them with the needed training. The CBS also established its own Currency Core Group (CCG) which is management function for the currency reform and prepared detailed plans for the conversion of the current (counterfeit) banknotes in circulation. The CBS is currently finalizing;

- The criteria for the design and security features of the new banknotes and will subsequently start procurement process for the currency printer
- The cost of the entire reform project; and
- Estimating the volume of banknotes to print

The accountability framework associated with Phase I was endorsed by the CBS Board of Directors, and expected to be fully function in mid-2018 to support the preparatory work for the launch of the new currency.

CORPORATE GOVERNANCE

7. CORPORATE GOVERNANCE

7.1 Board of Directors

The Board of Directors of the Central Bank of Somalia consists of seven members of which two are executive members (the Governor, who is the Chairman and The Deputy Governor, who will be the chairmen of the Board when the Governor is absent) and Five non-executive directors, appointed under the Central Bank of Somalia Act Law no. 130 of 22 April 2012.

Over the reporting period of 2017, the Board of Directors of CBS held eight ordinary meetings and one extra-ordinary meeting. Through Board committees and full Board meeting, the Directors exercised their guidance role by reviewing policies and regulations, addressing organizational issues and enhancing corporate governance principles. The key regulations approved are: Draft CBS Regulation for Civil Penalties, and Draft CBS Procedural Regulation of Civil Penalties.

Table 11:- BOARD MEMBERS AND BOARD COMMITTEES

MEMBER	DATE OF APPOINTMENT	BOARD (MEETINGS)
Bashir Isse Ali	24th April,2014	9/9
Maryama Abdullahi Yusuf	24th April,2014	9/9
Abdurashid M. Siraj	February, 2016	9/9
Maye Mohamed Sheekhuna	24th April,2014	9/9
Dr. Omar Ibrahim Hussein	24th April,2014	7/9
Hodan Isse	24th April,2014	8/9
Yusuf Mohamed Ali	February, 2016	9/9

Source: CBS, 2017

Human Resource and Management Committee Functions

Members:

1. Abdurashid M. Siraj
2. Hodan Isse
3. Yusuf Mohamed Ali

Main Functions

- ✓ Continuous reviewing the structure, size and (including skills, knowledge and experience) required by the Bank and recommendations to the boars about any changes
- ✓ Full consideration of staff planning, skills and expertise required in the future, and also taking into account the challenges and opportunities of the Bank.
- ✓ Regular review of salaries and benefits of senior staff and other employees.
- ✓ Reviewing the Bank's HR Policies and advising the Board for approval

Audit and risk Management Committee

Members:

1. Abdurashid M. Siraj
2. Maye Mohamed Sheekhuna
3. Yusuf Mohamed Ali

Main Function

- ✓ Review the annual financial statements
- ✓ Review the implementation of key accounting policies and financial reporting
- ✓ Review the adequacy of the internal audit function, including qualification of staff. resources, and quality of reports;

Financial and Fixed Asset Committee

Members:

1. Abdurashid M. Siraj
2. Yusuf Mohamed Ali

Table 12:- Board Regulation

#	Regulations
1	Draft CBS Regulation for Civil Penalties
2	Draft CBS Procedural Regulation of Civil Penalties

Source: CBS, 2017

Table 13:- Board Directives

#	Directives
1	Revising the HR Regulation of the Banks, 1977;
2	Nominating a technical committee of currency reform
3	Retirement age is decided due to the demographic changes
4	Directives regarding counterfeiting of the Somali shilling in Federal Member States.
7	Imposing fine on the commercial banks that had not yet been able to comply with the Central Bank's laws and regulations
8	Maintaining all banks a minimum capital of US$8.5 million of which $1.5 million must be deposited at the Central Bank in Cash

Source: CBS, 2017

7.2 International Monetary Fund Staff-Monitored Program (SMP)

The Federal Government of Somalia (FGS) has marked milestones in reform and policy implementation supported by the Staff-Monitored Program (SMP). On June 21, 2017, the International Monetary Fund's (IMF) management approved a second 12-month SMP covering the period May 2017–April 2018. This followed the satisfactory completion of the first 12-month SMP (May 2016–April 2017) supported by the IMF to help economic reconstruction efforts and to start establishing a track record of policy and reform implementation.

The SMP is geared toward re-establishing macroeconomic stability, building capacity to strengthen macroeconomic management, rebuilding institutions, and improving governance and economic statistics. The FGS has implemented a critical tax system to raise the revenue collection in 2017. It is also planned to introduce the new currency as soon as possible to replace all existing currencies which are all counterfeit. New currency will be issued but the Somali Shillings (SOS) will continue to be a legal tender for Somalia. This will be an important step towards fighting crime. Financial reforms are supported by Somali development partners with technical assistance from the IMF.

The new SMP is founded on four pillars: Business environment, Governance and corruption, social spending and safety net, and The National Development Plan. The current SMP will help strengthen institutions and economic policies, paving the way for higher and more inclusive economic growth, and eventual debt relief under the HIPC Initiative as soon as feasible. Since the last Article IV Consultation, the FGS has pursued wide-ranging economic reforms and policies that are in line with staff recommendations under the SMP.

The FGS successfully completed the first 12-month SMP with the IMF in April 2017, and the authorities entered a seconds covering May 2017–April 2018. The second Article IV consultation discussions with Somalia were completed in February 2017 (the first in over 25 years was completed in July 2015).

8. FINANCIAL PERFORMANCE

CENTRAL BANK OF SOMALIA

REPORTS AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2017

CENTRAL BANK OF SOMALIA

REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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CENTRAL BANK OF SOMALIA

CORPORATE INFORMATION

BOARD OF DIRECTORS	Abdirahman M. Abdullahi	- (Governor)
	Maryama Abdullahi Yusuf	- (Deputy Governor)
	Abdulrashid M . Siraj	
	Dr. Omar Ibrahim Hussein Maye	
	Mohamed Sheekhuna Yusuf	
	Mohamed Ali	
	Hodan Isse	
REGISTERED OFFICE	Central Bank of Somalia P O Box 11 55 Corso Somalia Mogadishu, Somalia	
LAWYERS	State Attorney General Villa Somalia, Mogadishu, Somalia	
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place Waiyaki Way, Muthangari P O Box 40092 - 00100 GPO Nairobi, Kenya	

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements of Central Bank of Somalia (the "bank") for the year ended 31 December 2017, which disclose the bank's state of financial affairs.

1. ESTABLISHMENT

The Central Bank of Somalia was established under the Central Bank of Somalia Act, 1962. The Bank currently operates under the Central Bank of Somalia Act, 2011.

Bank's vision

The vision of the Bank is: "To be the region's leading Central Bank in fostering economic growth through maintaining price and financial stability."

Bank's mission

The Bank's mission is: "To conduct monetary policy directed towards maintaining price stability and to promote integrity and stability of the financial system conducive to sustainable growth of the national economy".

2. STATUTE AND PRINCIPAL ACTIVITIES

Central Bank of Somalia (CBS) is the Central Bank of the Federal Republic of Somalia. The Bank is a body corporate with legal entity, with perpetual succession and common seal, with power to acquire, own, possess and dispose of common seal, and of property, and to contract, to sue and to be sued in its own name. The Bank has the ability to exercise any type of central banking function unless specifically excluded under The Central Bank Act 2011, and will enjoy all the prerogatives of a central bank.

A summary of functions and objectives of the Bank are to:

- Formulate, implement and be responsible for monetary policy, including foreign exchange rate policy, issue currency, regulate and supervise banks and financial institutions including mortgage financing, development financing, lease financing, licensing and revocation of licenses and to deal, hold and manage gold and foreign exchange reserves of Somalia;
- Compile, analyse, and publish the monetary, financial, balance of payments statistics and other statistics covering various sectors of the national economy;
- Regulate, monitor and supervise the payment, clearing and settlement systems;
- Ensure the integrity of the financial system and support the general economic policies of the Government and promote sound monetary, credit and banking conditions conducive to the development of the national economy.

3. RESOURCES AND STRENGTH

Resources and strengths that facilitate the Bank's endeavor in achieving its strategic objectives include human, financial and technological resources.

In terms of human capital, the Bank has well-qualified and committed staff dedicated to a long-term career in the Bank. Likewise, the management adheres to good governance and promotes labour relations. From its strategic perspective, the Bank enhances its financial sufficiency by improving management of its resources through prioritization of initiatives, implementing initiatives within the available financial envelope and prudently managing its sources of income.

The Bank has also undertaken various reforms that contribute to the attainment of its objectives. For example, the on-going modernization of the monetary policy framework is expected to improve the efficiency and effectiveness of the monetary policy implementation.

4. REVIEW OF THE BANK'S PERFORMANCE AND BROAD GOALS

During the year, the Bank's Corporate Plan continued to focus on attaining three broad goals that translate its primary mandates. These are:

- Maintaining price stability;
- Promoting integrity and stability of the financial system; and
- Strengthening corporate governance.

Basing on the three broad goals, the Bank's performance revealed the following:

Maintaining price stability:

Foreign reserves were managed consistent with the strategic objective of capital preservation, adequate liquidity, and maximizing return on investments.

Promoting integrity and stability of the financial system

Financial stability is the smooth operation of the system of financial intermediation within Government through a range of financial institutions. Stability in the financial system is evidenced by an effective regulatory infrastructure, effective and well-developed financial markets, and effective and sound financial institutions.

Strengthening corporate governance

To strengthen the bank's corporate governance the board focused on building the capacity of its human capital, ensuring compliance with legislation and the overall engagement with external stakeholders. The outcome of each of this steps taken are explained below;

Staffing, Capacity Building and Work Environment

The Bank was adequately staffed with the right capabilities to accomplish its strategic and operational objectives. This position was a result of implementation of Human resource plans and strategies that enabled the Bank to fill vacant positions in time. To improve knowledge and skills of employees, the Bank continued to address skills requirements through donor support and funding. The Bank continued to have a safe and healthy working environment. All office facilities and working tools operated smoothly. Employees' benefits and welfare services were delivered as planned and staff well-being and morale was maintained.

Enhance Compliance with Legislation, Regulations, Policies and Standards

During the year, the Bank continued to put emphasis on compliance with the Central Bank of Somalia Act, 2011; and other legislations, regulations and policies in executing its mandate. Further, the Bank continued to adhere to Anti-Money Laundering (AML) and the Combating Financing of Terrorism Units (CFT) by continuing coordination of Anti-Money Laundering (AML)/Combating Financing of Terrorism (CFT) activities as an effort to ensure that the Bank adhered to legislation, regulations and policies. The Bank spearheaded coordination of AML/CFT initiatives within the Bank and among stakeholders in the country.

During the period under review, the Bank continued to maintain its properties and facilities including buildings, machinery, equipment and motor vehicles in order to ensure that they are always in good working condition.

The Central Bank's Engagement with External Stakeholders

The Bank continued to nurture its relationship with external stakeholders, seeking to gain confidence and trust in protecting the Bank's reputation. In order to improve its reputation, the Bank continued to address stakeholders' needs, expectations and providing timely responses to stakeholders' inquiries.

5. CAPITAL STRUCTURES

Article 9 of the Central Bank of Somalia Act, 2011 notes that the authorized capital of the Bank may be increased by such amounts as may be proposed by the Board and approved by the Ministry of Finance.

6. RELATIONSHIP WITH STAKEHOLDERS

The Central Bank of Somalia recognizes the importance of its key stakeholders including the government and banking institutions in adding value and ensuring that the needs and expectations to fulfill its mission and vision. The bank continues to hold good working relationships with its stakeholders and maintains a regular update with all those involved.

The Bank ensures it meets all its obligations with stakeholders by:

(a) Price Stability: The Bank formulates and executes monetary policy that leads to stable domestic prices; provide policy advice to the governments; disseminate economic reports and ensures schart exchange rates.

(b) Financial Stability: The Bank promotes the stability of the financial system through effective regulation and supervision of banking system; provide safe and efficient payment systems; and promote public access to the financial services.

(c) Internal requirements: The Bank attracts and retains high caliber staff with integrity, competency and accountability and provides conducive working environment and career development opportunities to its staff.

7. MANAGEMENT

The Governor is required to discharge such functions and direction, in conformity with the policies and other decisions made by the Board.

The law further provides that the Governor to be assisted by the Deputy Governor. The Deputy Governor, in the order determined by the governor, shall act for the governor, shall exercise all the powers, and shall perform all the functions conferred on the governor under this act whenever the governor is temporarily absent or incapacitated, and shall perform such other functions as the governor may from time to time assign to him/her.

8. FUTURE DEVELOPMENT PLANS

To ensure integrity and stability of the financial system, the Bank puts emphasis on ensuring that the financial sector remains on a sound footing to serve the broader needs of the Somalia economy. Accordingly, special focus will be placed on surveillance of CBS financial system and putting in place elaborate crisis management and resolution framework.

On strengthening corporate governance, the Bank will take deliberate measures to create broad awareness and capacity building among staff to strengthen internal controls and formulate frameworks in adherence with International standards. In addition, the Bank will focus on enhancing application of modern technologies; improve its work processes and compliance with laws and regulation in order to improve operational efficiency in all its undertakings. Further, the Bank will focus on service excellence in attending to CBS internal and external stakeholders. Like any other central bank, the Bank is dedicated to continue advising the governments on economic policy related matters and serving the general public as our ultimate customers.

9. RISK MANAGEMENT AND INTERNAL

The Board accepts final responsibility for risk management and internal control systems of the Bank. It is the task of management to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the Bank's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviors towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system, of internal control can provide absolute assurance against misstatement or losses, the Bank's system is designed to provide the Board with reasonable assurance that procedures in place are operating effectively. The Bank ensures that existing and emerging risks are identified and managed within acceptable risk tolerances.

Key risks and uncertainties

The key risks that may significantly affect the Bank's strategies and development are mainly financial, operational and strategic. Below we provide a description of the operational and strategic risks facing the Bank. The risks related to financial instruments have been disclosed under Note 3 of the financial statements:

(a) Operational Risk

This is the risk of CBS financial and non-financial resulting from inadequate human resource and systems, management failures, ineffective internal control processes, non-compliance, inadequate security and adverse legal judgements. The main operational risks of the Bank were:

- Human Resource Risk

The particular nature of the activities of the Bank necessitates specialized knowledge in many areas. The Bank ensures that there is an adequate knowledge base for all specialized job requirements by investing significantly in human resource development in terms of capacity building and practical exposure. The Bank also organizes workshops, seminars, conferences and job attachments to its staff to improve its human resource requirements. It also revises its staff retention scheme to compete with the prevailing labour market.

- Business Disruption and Security risks

Risks related to failure to execute business processes and events that compromise the assets, operations and objectives of the Bank. The risks might be due to lack of business continuity management, lack of good practices or controls on the Bank's activities.

The Bank addresses these risks inter alia through ensuring existence of Business Continuity Management (BCM) and sound internal control system which includes: operational and procedural manuals, ICT security policies, back up facilities, contingency planning, and independent internal audit function. Managing operational risk in the Bank is an integral part of day-to-day operations by the management. Management, Internal Audit Function, Audit Committee and the Board, closely monitors this risk.

- Legal Risk

Legal risk arises from any uncertainty of enforceability, whether through legal or judicial processes, of the obligations of the Bank's clients and counter parties. The Bank aims at minimizing such uncertainties through continuous consultations with all relevant parties.

The Bank has in place a clear procedure of the delegation of authorities. Also strict code of conduct and ethics is used to minimize chances of causing legal disputes between the Bank and its counterparts.

9. RISK MANAGEMENT AND INTERNAL

Key risks and uncertainties (continued)

(b) Strategic Risk

This risk covers analytical and policy risk which is associated with economic and monetary policy formulation; business risk which refers to the probability of loss inherent in the Bank's operations and environment; performance risk which is associated with formulation and execution of business plans and strategies; and external risks which refer to threats from the external environment such as infrastructure disruption, financial crime and computer viruses, political, social and economic changes. Similar to operational risk, strategic risk may result into damage on the Bank's reputation.

The Bank has an obligation to ensure that it performs its functions and maintains its reputation as a Central Bank in line with requirements of the Central Bank of Somalia Act, 2011.

In view of the above, the Bank's management ensures that it fulfils its fiduciary responsibilities. The Bank adheres to the best practices and applies principle of sound corporate governance. It also ensures that all relevant employees have clear understanding of the appropriate processes in respect of the best practices and principles of good governance.

The Bank therefore, sets out policies and guidelines that govern sound functional operations within the Bank. The performance of these policies and guidelines are periodically reported to different levels of the Bank's management for control and compliance monitoring.

The top management of the Bank has the necessary freedom and discretion to exercise central banking functions. However, this freedom is exercised within the context of good governance and having regard to a proper balance between accountability and the best interests of the Bank and its various stakeholders.

The function of the Bank of overseeing and ensuring the integrity of the country's banking system exposes it to severe criticism whenever there is an incident of bank failure or systemic difficulty. The Bank adheres to international best practice and, to this end, maintains close liaison with international donors. The Bankstrives towards full compliance with the principles for effective banking supervision as well as the core principles for systemically important payment systems.

10. SOLVENCY

The Board of Directors confirms that International Financial Reporting Standards (IFRS) applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of Directors has reasonable expectation that the Central Bank of Somalia has adequate resources to continue carrying out its statutory activities for the foreseeable future.

11. EMPLOYEES WELFARE

(a) Management and employees relationship

The relationship between the Bank and its employees continued to be good. Employees complaints raised during the year were resolved mainly through the use of consultative meetings/forums involving the management. As a result, healthy relationship continued to exist between management and the trade union.

Complaints are resolved through meetings and discussions. Work morale is good and there were no unresolved complaints from employees. The Bank provides a number of facilities aiming at improving the working environment and living standards of its employees. Such facilities include medical services, transport to and from work, house allowance, employee training and development and leave travel assistance as well as any other allowances stipulated within the staff by-laws.

(b) Medical Assistance

Members of staff are provided with medical support by the Bank should they require it. The bank covers both medical costs and travel costs in adherence with the Board of directors' resolution.

CENTRAL BANK OF SOMALIA

REPORT OF THE DIRECTORS (Continued)

11. EMPLOYEES WELFARE (Continued)

(c) Health and safety

Effective health, safety and risk management is a priority for the Bank. The Bank provides staff training on health and safety as well providing the necessary measures to protecting its working environment and team members.

12. CORPORATE SOCIAL RESPONSIBILITY

The Bank is committed to fulfilling part of its Corporate Social Responsibility (CSR) through supporting national activities and other areas of interest to the Bank in the Federal Republic of Somalia.

13. COMPLIANCE WITH LAWS AND REGULATIONS

In performing the activities of the Bank, various laws and regulations having the impact on the Banks operations were observed.

14. STATEMENT OF COMPLIANCE

The Directors' Report has been prepared in full compliance with requirements of the Central Bank of Somalia Act, 2011 (Directors' Report).

15. STATEMENT OF GRATITUDE TO INTERNATIONAL DONORS

The Central Bank of Somalia continues to engage with its international partners i.e. IMF, World Bank, African Development Bank and other stakeholders in its continued effort to reforming its financial systems and ensuring that it meets its obligations. The Bank has remained a key development partner of the Government in the provision of financial support to ongoing rebuilding of the country after more than two decades of civil war.

16. PRINCIPAL ACTIVITIES

The bank is primarily responsible for providing payments and banking services to the government and other stakeholders.

17. RESULTS FOR THE YEAR

	2017 USD
Surplus for the year	372,628
	=======

18. DIRECTORS

The present members of the board of directors are shown on page 35.

19. APPOINTMENT OF NEW GOVERNOR

The bank appointed new governor (Abdirahman Mohamed Abdullahi) in April 2019.

20. AUDITORS

Deloitte & Touche have expressed their willingness to continue in office.

BY ORDER OF THE BOARD

Director Mogadishu Abdirahman M. Abdullahi

2019

CENTRAL BANK OF SOMALIA

STATEMENT ON CORPORATE GOVERNANCE

Central Bank of Somalia ascribes to the highest standards of corporate governance. The Bank through the Board of Directors and Management upholds and practices the principles of sound corporate governance.

To this end, the Central Bank of Somalia Act, 2011, has provided a framework for ensuring application of sound corporate governance principles and best practices by the Bank's Board of Directors and its Committees and Management in the course of managing the day-to-day affairs/operations of the Bank as summarized below:

- In terms of the provisions of Article 12 of the Central Bank of Somalia Act, 2011, the Bank's Board of Directors is the supreme policy making body in the Bank, and apart from its specified function of approving the budget of the Bank.

- Two Committees are currently assisting the Bank's Board of Directors in the discharge of its functions. These are the Audit Committee and Banking Supervision Committee.

Board composition

The Board shall be charged with the formulation and the supervision of the implementation of the policies, and the supervision of the administration and the operations of the Bank.

The Board shall consist of:

a) The Governor, who shall be the Chairman;

b) The Deputy Governor, who shall be the chairmen of the Board when the Governor is absent; and five other non-executive directors.

Board responsibilities

The Board may, by resolution either generally or in any particular case, delegate to any committee of the Board, or to any member thereof, or to any officer, employee or agent of the Bank the exercise of any powers or the performance of any functions or duties of the Board under this Act or any other written law, except for the following: Formulate and adopt the monetary policy of the Bank including, as appropriate, decisions relating to intermediate monetary objectives, key interest rates and the supply of reserves in Somalia and to adopt internal rules for their implementation.

The governor, as chairman of the board of the Bank, shall convene meetings of the board not less than once in every two months, or whenever the business of the Bank so requires or whenever he is so requested in writing by at least three directors.

The board will Formulate and adopt other policies of the Bank regarding the execution of its functions, and to adopt, as appropriate, internal rules for their implementation and decide upon the application of the foreign exchange regime as well as supervise the implementation of the policies and the execution of the functions of the Bank.

Board Meetings

The Board held 3 meetings during the year ended 31 December 2017. In addition there were various meetings of the Board Committees. All members of the Board were able to devote their time required for the Board and Committee meetings either physically or through an online platform.

Board Meetings (Continued)

The Board and its committee's meet once every month with additional meetings convened as and when necessary. During the year, the Board and its committees met to discuss and decide on various business activities. The Board Committees recommend key business decisions to the Board for approval. Major issues raised at the board meetings during the year ended 31st December 2017 included;

- Memorandum of Understanding with the Ministry of Finance
- Regulations of the Financial Institutions
- Bank's Human Resource Plan
- Reviewing the Supervision Department Regulations
- Bank Licensing Regulation, Capital Adequacy Regulation, Liquidity Regulation
- MTB Registration and Licensing Regulation

During the year, the Board members attended the Board meetings as follows;

Date of meeting	**28.2.17**	**29.4.17**	**16.5.17**	**29.6.17**	**24.7.17**	**21.8.17**	**3.10.17**	**28.10.17**	**26.12.17**
Bashir Isse Ali	√	√	√	√	√	√	√	√	√
Maryam A. Yusuf	√	√	√	√	√	√	√	√	√
Abdulrashid M.Siraj	√	√	√	√	√	√	√	√	√
Dr. Omar I. Hussein	√	√	X	√	X	√	√	√	√
Maye Mohamed Sheekhuna	√	√	√	√	√	√	√	√	√
Yusuf Mahamed Ali	√	√	√	√	√	√	√	√	√
Hodan Isse	√	√	√	√	X	√	√	√	√

Board Committees

One Committee is currently assisting the Bank's Board of Directors in the discharge of its functions. This is the Audit Committee

The Audit Committee

The Audit Committee is largely composed of Non-executive Directors. The Chairman of the Committee is a Non-executive Director. The Deputy Governor-Administration and Internal Control is the only Executive member of the Committee. The Terms of Reference for the Audit Committee cover four major areas, namely, Internal Control, Financial Reporting, Internal Audit and External Audit.

The Audit Committee's mandate under Internal Control covers evaluation of control environment and culture; the adequacy of the internal control systems and compliance with IFRS in the preparation of financial statements; the overall effectiveness of the internal control and risk management framework; The Committee also reviews requests for write off/back of items from the books of accounts and reviews the effectiveness of the system for monitoring compliance with laws and regulations.

The mandate relating to Financial Reporting requires the Audit Committee to review significant accounting and reporting issues and their impact on the financial reports and ensure current financial risk areas are being managed appropriately. The Committee also ensures the adequacy of the financial reporting process and reviews the Bank's annual accounts before approval and adoption by the Board.

Board Committees (Continued)

The Audit Committee (Continued)

With regard to External Audit, the Audit Committee reviews and approves the external auditors' proposed audit scope, approach and audit deliverables, draft financial statements before submission to the External Auditors for audit; and also reviews and approves the proposed audit fee.

The Committee's mandate on Internal Audit covers review of the activities and resources of the internal audit function; effectiveness, standing and independence of internal audit function within the Bank; review of the internal audit plan; and follow up on implementation of internal audit findings and recommendations. The Audit Committee reports to the Board of Directors.

Directors' remuneration

The remuneration received by the Governor and the Deputy Governor shall be in line with that received by persons holding similar executive positions with large financial institutions and be disclosed in the annual report.

Conflicts of interest

Directors have a statutory obligation to avoid situations in which they have or may have interests that conflict with those of the bank.

Independence

All Non-executive Directors are considered by the Board to be independent in character, judgment and free of relationships or circumstances, which could affect their judgment.

Approved by the Board of Directors on 09th September...... 2019, and signed on its behalf by:

Abdirahman M. Abdullahi
The Governor and Chairman of the Board

Director

Director

CENTRAL BANK OF SOMALIA

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Central Bank of Somalia Act, 2011 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the bank as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that they keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the bank. They are also responsible for safeguarding the assets of the bank.

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Central Bank of Somalia Act, 2011 and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Central Bank of Somalia. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the bank and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the bank will not remain a going concern for at least the next twelve months from the date of this statement.

Director	Director

09th September

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INDEPENDENT AUDITORS' REPORT
TO THE BOARD OF DIRECTORS OF CENTRAL BANK OF SOMALIA

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of Central Bank of Somalia (the "Bank"), set out on pages 49 to 73, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section below, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Qualified Opinion

Opening balances

We were appointed as auditors of the bank in the financial year ended 31 December 2014 but were unable to obtain sufficient appropriate audit evidence on the opening balances. The bank did not undertake an audit of the financial year ended 31 December 2013 and preceding periods. In attempt to address the difficulties in obtaining historical transaction ata at the bank, management embarked on a process of reconciling the opening balances including reconfirming completeness and accuracy of the bank's assets and liabilities in the previous years. This process had not been fully concluded by the time of completing our audit. We were therefore unable to determine whether any misstatement in the unaudited opening balances could have a material impact on the opening reserves of the bank as at 1 January 2016 and 2017 and to the statements of profit or loss and other comprehensive income for the years ended 31 December 2016 and 2017.

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

Without further modifying our opinion, we draw your attention to note 23 which describes a contingent liability relating to sovereign loans which the International Monetary Fund (IMF), through the Government of Somalia, requested the Central Bank of Somalia to recognise in its statement of financial position. Note 23 has laid out the nature of this contingent liability and the considerations by the bank.

Other Information

The directors are responsible for the other information, which comprises the report of directors and the statement of corporate governance. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the. financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF CENTRAL BANK OF SOMALIA (Continued)

Report on the Audit of the Financial Statements

Continued) Other information (Continued)

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard

Responsibilities of the Directors for the financial statements

The directors are responsible for the preparation and fair presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Central Bank of Somalia Act, 2011 and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF CENTRAL BANK OF SOMALIA (Continued)

Report on the Audit of the Financial Statements (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings including any significant deficiencies in internal control that we identify during our audit

Report on Other Legal Requirements

Except for the matter described in the Basis for Qualified Opinion section of our report, as required by the Central Bank of Somalia Act,2011, we report to you, based on our audit, that:

i) we have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purposes of our audit;

ii) in our opinion, proper books of account have been kept by the bank, so far as appears from our examination of those books; and

iii) the bank's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi

21 September **2019**

CPA F Okwiri - P/No 1699
Signing partner responsible for the independent audit

CENTRAL BANK OF SOMALIA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 USD	2016 USD
REVENUE	4	4,641,403	3,411,332
OPERATING EXPENDITURE	5	(4,288,268)	(3,732,263)
OTHER INCOME	7(a)	19,405	5,207
OTHER LOSSES	7(b)	-	(583,906)
NET FOREIGN EXCHANGE GAINS		88	13,771
SURPLUS/(DEFICIT) BEFORE TAXATION		372,628	(885,859)
TAXATION	8	-	-
SURPLUS/(DEFICIT) FOR THE YEAR		372,628	(885,859)
OTHER COMPREHENSIVE INCOME:			
REVALUATION SURPLUS ON PROPERTY		34,624,543	-
REVALUATION GAIN ON GOLD COIN AND BULLIONS		2,479,802	1,404,951
		37,104,345	1,404,951
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		37,476,973	519,092
		=========	========

CENTRAL BANK OF SOMALIA

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	2017 USD	2016 USD
ASSETS			
Cash balances	9	18,569,175	8,436,343
Deposits and balances due from banking institutions	10	29,759,743	7,393,828
Receivables	11	25,000	5,868
Loans and Advances	12	1,200,000	-
Gold coin and bullions	13	21,139,300	18,659,498
Property and equipment	14	104,367,094	69,353,825
Intangible assets	15	347	1,520
TOTAL ASSETS		175,060,659	103,850,882
LIABILITIES			
Treasury deposits	16	32,992,445	4,902,885
Deposits from banks	17	6,037,790	1,869,071
Security deposits	18	840,000	840,000
Microfinance grant	19	3,000,000	3,000,000
Other payables	20	1,763,028	288,503
TOTAL LIABILITIES		44,633,263	10,900,459
RESERVES			
Revenue reserve		6,777,595	6,404,967
Revaluation reserve		104,332,383	67,228,038
Gold reserve		19,317,418	19,317,418
TOTAL RESERVES		130,427,396	92,950,423
TOTAL LIABILITIES AND RESERVES		175,060,659	103,850,882

The financial statements on pages 49 to 73 were approved and authorised for issue by the board of directors on 09 th September 2019 and were signed on its behalf by:

Director

Director

CENTRAL BANK OF SOMALIA

STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 DECEMBER 2017

	Revenue Reserve* USD	Revaluation Reserve** USD	Gold Reserve*** USD	Total USD
At 1 January 2016	7,290,826	65,823,087	19,317,418	92,431,331
Total comprehensive income for the year	(885,859)	1,404,951	-	519,092
At 31 December 2016	6,404,967	67,228,038	19,317,418	92,950,423
	========	=========	=========	=========
At 1 January 2017	6,404,967	67,228,038	19,317,418	92,950,423
Total comprehensive income for the year	372,628	37,104,345	-	37,476,973
At 31 December 2017	6,777,595	104,332,383	19,317,418	130,427,396
	========	=========	=========	=========

* Revenue reserve represents net cumulative profits/ (losses) from the banks' operations. This is subject to distribution in accordance with the provisions of the CBS Act.
**Revaluation reserve relates to revaluation surplus on land and buildings owned by the bank and gains/losses on the revaluation of the Gold coin and bullion.
***Gold reserve represents value of Gold coin and bullions that the bank has recovered through its asset recovery exercise. This amount has been kept constant at the amount that was initially recognized as at 31 December 2014 with all gains/losses going through the revaluation reserve.

CENTRAL BANK OF SOMALIA

STATEMENT OF CASH FLOWS

	Notes	2017 USD	2016 USD
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	22 (a)	33,160,276	(5,132,716)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	14	(661,529)	(280,239)
Proceeds from disposal of motor vehicles		-	7,000
Net cash used in investing activities		(661,529)	(273,239)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		32,498,747	(5,405,955)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		15,830,171	21,236,126
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	22 (b)	48,328,918	15,830,171
		=========	========

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Adoption of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC)

i) New standards and amendments to published standards effective for the year ended 31 December 2017

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 7 Disclosure initiative

The amendment require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both cash and non-cash changes.

The application of these amendments has had no impact on the Bank's financial statements as the Bank did not have any such transaction during the year.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify the following:

i. Unrealized losses on debt instrument measured in fair value for which the tax base remains at cost give rise to temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;

ii. When an entity assesses whether taxable profits will be available against which it can utilize a deductible temporary difference, and the tax laws restricts the utilization of losses to deduction against income of a specific type, an entity assesses a deductible temporary difference in combination with other deductible differences of that type but separately from other types of temporary differences.

iii. The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

iv. In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences

The amendment had no impact on the Bank's financial statements as the company did not have any such transactions in the year.

Amendments to IFRS 12 included in the 2014-2016 annual improvements cycle (Disclosure of interest in other entities)

The amendment include clarification of the scope of the standard. IFRS 12 states that an entity needs not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The amendment had not effect on the Bank's financial statements as the Bank did not have any subsidiary, associate or joint venture classified as held for sale during the year

1. ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

ii) New and amended standards in issue but not yet effective in the year ended 31 December 2017

The application of these amendments has had no effect on the Bank's financial statements.

New standards and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2018
Amendments to IAS 7 Disclosure Initiative	1 January 2018
IFRS 16 Leases	1 January 2019

iii) Impact of relevant new and amended standards in issue but not yet effective in the year ended 31 December 2017

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The directors of the Bank are assessing the impact of the application of IFRS 9 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

1. ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued

iii) *Impact of relevant new and amended standards in issue but not yet effective in the year ended 31 December 2017 (Continued)*

IFRS 15 Revenue from Contracts with Customers

In May 2015, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The directors of the Bank do not anticipate that the application of IFRS 16 in the future will have a significant impact on amounts reported in respect of the group's financial assets and financial liabilities. However, it is not practical to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities. However, an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2018 with early application permitted. The directors of the Bank do not anticipate that the application of these amendments will have a material impact on the group financial statements.

iv) *Early adoption of standards*

The Bank did not early-adopt any new or amended standards in 2017.

1 ACCOUNTING POLICIES (Continued)

Basis of preparation

The bank prepares its financial statements under the historical cost convention, modified to include the revaluation of certain assets.

Fees and commission income

In the normal course of business, the bank earns fees and commission income from a diverse range of services to its customers. Fees and commissions are generally recognised in profit or loss on an accrual basis when the service has been provided.

Other fees relate mainly to transaction and service fees, which are recognized as the services are rendered.

Property and equipment

Property, plant and equipment are stated at cost or as professionally revalued less accumulated depreciation and accumulated impairment losses where applicable. Depreciation is calculated on a straight line basis at annual rates estimated to write off the cost of the property and equipment over their expected useful lives. The rates generally in use are:

Buildings	2.5%
Motor vehicles	20%
Fixtures, fittings, computers and equipment	10% - 20%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasehold land

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the period of the lease. When a lease includes land and buildings elements, the bank assesses the classification of each element as either a finance lease or an operating lease. In determining classification of the land element, an important consideration is that land normally has an indefinite economic life.

Intangible assets - computer software costs

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortisation and impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding 5 years.

Impairment of tangible and intangible assets

At the end of each reporting period, the bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

1 ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions

Provisions are recognized when the bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Gold

Gold is held by the Central Bank of Somalia as part of its foreign reserves. Gold is initially recorded at the prevailing rates at initial recognition, including transaction costs. Subsequent to initial measurement, it is valued at the prevailing market rates.

Gold reserves are held to support the national currency (Gold Bullion) and as such are classified as non-current assets, and accounted for using either cost model or the revaluation model. Such reserves are not traded and the levels frequently do not change from one year to the next.

Currency in circulation

Notes and coins in circulation are measured at fair value. Currency in circulation represents the nominal value of all bank notes and coins held by the public and commercial banks. The bank has not been able to measure the value of the currency in circulation after its reconstruction in 2013 following its collapse in 1992.Consequently, the values have not been included in this financial statements.

Foreign currencies

Transactions in foreign currencies during the year are translated at the rates ruling at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into United States Dollars at the rates of exchange ruling at the end of each reporting date. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated. Gains and losses on exchange of monetary items are dealt with in the profit or loss in the period in which it arises.

1 ACCOUNTING POLICIES (CONTINUED)

Taxation

Article 8 of the Central Bank of Somalia Act, 2011 exempts the Bank from all:

a) taxes on its income and all duties, excise and other taxes and levies on the import and domestic supply of gold, banknotes and coins.
b) other taxes duties and levies from which Government ministries and other public agencies are exempted by law.

Financial instruments

(i) Recognition

Financial assets or liabilities are initially recognised on the bank's statement of financial position at cost using settlement date accounting, when the bank has become a party to the contractual provisions of the instrument.

(ii) Classification and measurement

Financial assets

The bank's financial assets is only made up of loans and receivables.

Loans and receivables

Loans and receivables including advances originated by the bank are non-derivative financial assets with fixed or determinable payments with fixed maturities that are not quoted in an active market. Loans and receivables are recognised when cash is advanced to borrowers. These are held to maturity and are measured at amortised cost using the effective interest method, less any impairment.

Impairment and uncollectability of financial assets

At the end of each reporting period, all financial assets are subject to review for impairment.
If it is probable that the bank will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred.

The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate (recoverable amount). The carrying amount of the financial asset is reduced to its estimated recoverable amount through use of the provision for bad and doubtful debts account. The amount of the loss incurred is included in the profit or loss for the period.

The bank reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the profit or loss, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a bank, or national or local economic conditions that correlate with defaults on assets in the bank.

When an available for sale financial asset is considered impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in other comprehensive income is removed from equity and recognised in profit or loss for the period even though the financial asset has not been derecognised.

Where a loan is deemed uncollectible, it is written off against the related provision for impairment losses. Subsequent recoveries are credited to the profit or loss for the year.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of owners

1 ACCOUNTING POLICIES (Continued)

Financial liabilities

After initial recognition, the bank measures all financial liabilities including customer deposits other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

Derecognition of financial liabilities

Financial liabilities are derecognised when and only when the bank obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The bank as a lessee

Assets held under finance leases are recognised as assets of the bank at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant leases.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Bank of Somalia (CBS), items in the course of collection from other banks, deposits held at call with banks and treasury bills with original maturities of less than three months. Such assets are generally subject to insignificant risk of changes in their fair value, and are used by the bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the bank acts in a fiduciary capacity such as nominee, trustee or agent.

Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in the event of the customer's default. These obligations are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the process of applying the bank's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgemnts are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

(i) Critical accounting judgements in applying the bank's policies

Classification of leases of land and buildings as finance or operating leases

At the inception of each lease of land or building, the bank considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

The bank also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

(ii) Key sources of estimation uncertainty

Property and equipment

Critical estimates are made by directors in determining the useful lives and residual values for property and equipment and intangible assets based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

3 RISK MANAGEMENT POLICIES AND OBJECTIVES

A. OVERVIEW OF RISK MANAGEMENT

The bank has exposure to the following financial risks from its use of financial instruments:

- Credit risk
- Liquidity risk

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the bank's risk management framework.

(a) Credit risk

Credit risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arise principally in lending to customers and other banks and investment activities. The Central Bank of Somalia does not provide loans to third parties and therefore the bank is not significantly exposed to any credit risk

Credit risk on financial assets other than loans

The bank is exposed to credit risk arising on other financial assets as included in the statement of financial position. As part of the credit risk management, the bank's management reviews information on significant amounts. The bank's management assess the credit quality of each counterparty, taking into accounts its financial position, past experience and other factors.

The credit risk on amounts due from banking institutions is limited because the counterparties are banks with high credit ratings.

	2017 USD	2016 USD
Deposits and balances due from banking institutions	29,759,743	7,393,828
	========	=======

Maximum exposure to credit risk before collateral held

	2017 USD	%	2016 USD	%
Credit exposures:				
Deposits and balances due from banking institutions	29,759,743	96%	7,393,828	100%
Receivables	25,000	0%	5,868	0%
Loans and advance	1,200,000	4%	-	-
	30,984,743	100%	7,399,696	100%
	========	====	=======	=====

(b) Liquidity risk

The bank is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with customer requirements. Liquidity risk is addressed through the following measures:

3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

A. OVERVIEW OF RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(i) Management of liquidity risk

The bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under CBS normal and stressed conditions, without incurring unacceptable losses or risking damage to the bank's reputation. The Board of Directors, is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due and that no difficulties meeting financial liabilities as they fall due is encountered.

(ii) Source of funding

The bank's source of funding is mostly from charging an agreed upon fees to all income received the Federal and Regional governments which are deposited into their respective Central Bank of Somalia operational accounts.

B. CAPITAL MANAGEMENT

The Central Bank of Somalia sets and monitors capital requirements for the bank as a whole.

The bank's accounting reserve position at 31 December was as follows:

	2017	2016
	USD	USD
Reserves		
Retained earnings	6,777,595	6,404,967
Revaluation reserve	104,332,383	67,228,038
Gold reserve	19,317,418	19,317,418
	130,427,396	92,950,423

(i) FAIR VALUE HIERARCHY

The bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Details of the fair value hierarchy for the Bank's property plant and equipment carried at fair value as at 31 December 2017 are as follows:

	Level 1	Level 2	Level 3	Total
	USD	USD	USD	USD
31 December 2017				
Buildings	-	-	4,743,806	4,743,806
Land	-	-	99,349,550	99,349,550
	-	-	104,093,356	104,093,356

2 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

B) CAPITAL MANAGEMENT (Continued)

(i) FAIR VALUE HIERARCHY (Continued)

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
31 December 2016				
Buildings	-	-	5,387,868	5,387,868
Land	-	-	63,694,764	63,694,764
	-	-	68,082,632	69,082,632
	========	=========	========	========

C) OTHER RISK DISCLOSURES

STRATEGIC RISK

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. It is a risk that may significantly impact on the achievement of the institution's vision and strategic objectives as documented in the strategic plan.

Who manages strategic risk

The Board of Directors is responsible for the preparation and implementation of the bank's strategy. The board delegates implementation to the Governor and the senior management team who execute strategy. The Board works together with senior management to ensure that the bank meets its strategic goals and objectives.

How we manage strategic risk

The bank sets strategic goals and objectives, evaluates its strategic position and develops appropriate strategies and then translates those strategies into a Strategic plan.

Each department is responsible for directing strategies in their respective units and ensures that such strategies are aligned to the overall strategy of the Bank. Regular comparison of actual performance to desired outcomes serves as an important check on the success of implementing approved strategies, and allows management to take timely remedial actions to address significant deviations from set targets.

The bank has internal control systems which are subject to internal audit reviews to ensure that it is not unduly exposed to strategic risks. The results of such audit reviews, including any issues and weaknesses identified are reported to the Board and senior management directly. CBS Board and senior management are engaged in the process to determine whether such reviews and audits are effectively performed and identified issues are addressed.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is embedded in all business activities including the practices for managing other risks e.g. credit, market and liquidity risks that arise in the normal course of business.

3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

C) OTHER RISK DISCLOSURES (Continued)

Who manages operational risk?

Senior management is responsible for consistently implementing and maintaining throughout the institution, policies, processes and systems for managing operational risk in all of the institution’s material products, services and activities, consistent with the bank’s risk appetite and tolerance.

How we manage operational risk?

Internal operational loss data such as loss arising from fraud, forgeries, robbery and system downtime provides meaningful information for assessing a bank’s exposure to operational risk and the effectiveness of internal controls. External data elements consist of gross operational loss amounts, dates, recoveries, and relevant causal information for operational loss events occurring at organizations other than the bank.

How we manage operational risk?

Internal controls are designed to provide reasonable assurance that the bank has efficient and effective operations; safeguard its assets; produce reliable financial reports; and comply with applicable laws and regulations.

The bank has established risk management and internal control procedures to address operational risks including code of conduct, delegation of authority, segregation of duties, audit coverage, compliance, mandatory leave, staff compensation, recruitment and training, and physical controls.

REPUTATIONAL RISK

Reputational risk is the potential that negative publicity regarding an institution’s business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions.

Who manages reputational risk?

Ultimate accountability for reputational risk management rests with the board of directors and senior management by addressing explicitly reputational risk as a distinct and controllable risk to the institution’s safety and soundness.

Nonetheless, every employee and representative of the bank has a responsibility to contribute positively to our reputation.

How we manage reputational risk?

Under the corporate governance principles matters such as management integrity, staff competence, code of conduct, support and corporate culture are incorporated all of which aim to reduce reputational risk.

Every employee and representative of the bank has a responsibility to contribute in a positive way towards our reputation. this is through ensuring ethical practices are always adhered to, interactions with all stakeholders are positive, and we comply with applicable policies, legislation, and regulations.

COMPLIANCE RISK

Compliance risk is the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards, as well as from the possibility of incorrect interpretation of effective laws or regulations.

Who manages compliance risk

The ultimate accountability for compliance risk management rests with the board, which is aware of the major aspects of the institution's compliance risk.

How we manage compliance risk

Department heads manage day to day regulatory and legal risk primarily by implementing appropriate policies, procedures and controls already in place.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 REVENUE

	2017 USD	2016 USD
Cash handling fees	4,198,093	2,888,922
License fees	232,000	122,000
Rental income	202,400	396,800
Registration fee	1,500	500
Sundry income	7,410	3,110
	4,641,403	3,411,332
	========	========

5 OPERATING EXPENDITURE

	2017 USD	2016 USD
Staff costs (note 6)	2,078,859	1,495,055
*Travel expenses	92,756	117,146
Security	314,601	318,271
Asset recovery expenses	119,060	145,000
Repairs and maintenance	14,652	92,793
Audit fees	90,000	90,000
Hospitality	88,393	61,223
Depreciation (note 14)	272,803	672,915
Amortisation (note 15)	1,173	1,173
Fuel	5,716	7,817
Miscellaneous expenses	25,443	3,798
Hotel	44,476	60,273
Medical expenses	25,259	31,466
Internet expenses	20,424	19,686
Rent	60,000	56,000
Board of directors expenses	207,649	96,000
Printing, publications and subscriptions	6,839	15,512
Tuition fees	24,060	10,892
Miscellaneous vehicle expense	5,482	5,952
Electricity	73,005	76,215
Telephone, fax, and telegraph	2,230	3,207
Office supplies stationaries	27,566	26,883
Water	2,312	2,503
Legal expense	25,500	42,400
Cleaning	18,063	18,184
Bank charges	94,320	-
Oil expenses	993	47
Postage	67	49
Donations	50,200	49,803
Consultant fees	60,229	48,500
Mission allowance	183,110	163,500
Drought contribution	236,695	-
Professional subscriptions	10,911	-
Irrecoverable debt	5,422	-
	4,288,268	3,732,263
	========	========

*Travel expenses are made up of per diem, travel and other related expenses.

	2017 USD	2016 USD
6 STAFF COSTS		
Salaries and wages	1,486,565	1,163,341
Staff allowances	226,535	158,614
Contract experts	117,600	164,300
Pension	248,159	8,800
	2,078,859	1,495,055
7(a) OTHER INCOME		
Interest on deposit account held in Federal Reserve Bank of New York	19,405	7,407
Loss on disposal of motor vehicles	-	(2,200)
	19,405	5,207
7(b) OTHER LOSSES		
Cash stolen from the Central Bank of Somalia	-	583,906

The other losses relate to counterfeit cash that was discovered in the Central Bank's Vault in 2016. The bank commissioned an investigation into the matter and the individuals responsible have since been arrested by the responsible authorities.

8 TAXATION

Article 8 of the Central Bank of Somalia Act Law no. 130 of 22 April 2011 exempts the Central Bank of Somalia from taxes on its income and all duties, excise and other taxes and levies on the import and domestic supply of gold, banknotes and coins, and other taxes duties and levies from which Government ministries and other public agencies are exempted by law.

	2017 USD	2016 USD
9 CASH BALANCES		
Somali Shillings	157,017	216,178
United States Dollars	18,412,158	8,220,165
	18,569,175	8,436,343

		2017 USD	2016 USD
10	DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS		
	Balances due from banking institutions	33,363,663	
		10,997,748	
	Provision for impairment of unconfirmed bank balances	(3,603,920)	
		(3,603,920)	
		29,759,743	7,393,828
		========	========
	Movement in provision for impairment is as follows;		
	At the start of year	(3,603,920)	(3,603,920)
	Profit or loss credit	-	-
	At end of the year	(3,603,920)	(3,603,920)
		========	========

The weighted average effective interest rate on balances and deposits due from banking institutions at 31 December 2017 was Nil (2016 - Nil).

		2017 USD	2016 USD
11	RECEIVABLES		
	Staff receivables	25,000	446
	Other receivables	-	5,422
		25,000	5,868
		========	========

12	LOANS AND ADVANCES		
	Micro Finance loans	1,200,000	-
		=======	======

The micro finance loans are loans which the Bank issued to 6 commercial banks from the funds received from Kuwait Fund for Arab Development (Note 19). The commercial banks are supposed to utilize the loans for provision of micro finance loans to small business traders.

These loans are interest free and the banks are not required to make periodic payments. However, the banks are required to repay the loan fully after 18 months.

		2017 USD	2016 USD
13	GOLD COIN AND BULLIONS		
	At 1 January	18,659,498	17,254,547
	Valuation gain through other comprehensive income	2,479,802	1,404,951
	At 31 December	21,139,300	18,659,498
		========	=========

13 GOLD COIN AND BULLIONS (Continued)

Gold coin and bullions consists of 16, 261 fine troy ounces of gold at the market price of United States Dollar (USD) 1,300 per ounce (2016: 16,261 fine troy ounces at USD 1,147.50 per ounce).

These Gold coin and bullions are held at the Federal Reserve Bank of New York. The assets are carried at fair value through other comprehensive income.

14 PROPERTY AND EQUIPMENT

COST	Land USD	Buildings USD	Furniture and fixtures USD	Vehicles USD	Equipment USD	Other equipment USD	Total USD
At 1 January 2016	63,694,764	5,793,005	78,784	267,250	192,631	6,858	70,033,292
Additions	-	175,389	23,423	-	78,657	2,770	280,239
Disposals	-	-	-	(29,500)	-	-	(29,500)
At 31 December 2016	63,694,764	5,968,394	102,207	237,750	271,288	9,628	70,284,031
At 1 January 2017	63,694,764	5,968,394	102,207	237,750	271,288	9,628	70,284,031
Additions	438,500	97,800	4,489	-	120,740	-	661,529
*Revaluation	35,216,286	(1,322,389)	-	-	-	-	33,893,897
At 31 December 2017	99,349,550	4,743,805	106,696	237,750	392,028	9,628	104,839,457
DEPRECIATION							
At 1 January 2016	-	-	27,606	138,590	104,537	6,858	277,591
Charge for the year	-	580,526	9,996	44,400	37,670	323	672,915
Eliminated on disposal	-	-	-	(20,300)	-	-	(20,300)
At 31 December 2016	-	580,526	37,602	162,690	142,207	7,181	930,206

14 PROPERTY AND EQUIPMENT (Continued)

	Land	Buildings	Furniture and fixtures	Vehicles	Equipment	Other equipment	Total
	USD	USD	USD	USD	USD	USD	USD
At 1 January 2017	-	580,526	37,602	162,690	142,207	7,181	930,206
**Charge for the year	-	150,120	11,737	41,429	68,554	963	272,803
Eliminated on Revaluation	-	(730,646)	-	-	-	-	(730,646)
At 31 December 2017	-	-	49,339	204,119	210,761	8,144	472,363
NET BOOK VALUE							
At 31 December 2017	99,349,550	4,743,805	57,357	33,631	181,267	1,484	104,367,094
	========	========	=======	======	=======	=====	========
At 31 December 2016	63,694,764	5,387,868	64,605	75,060	129,081	2,447	69,353,825
	========	========	=======	======	=======	=====	========

*The valuation of land and buildings was carried out by GIMCO Limited, registered valuers, on a Market Value basis as at 31st December 2017. The resulting revaluation surplus of USD 34,624,543 has been credited to other comprehensive income.

**In prior year the bank's management were not able to separate the values of land and building due to lack of reliable historical data. This resulted to land being included as part of buildings hence depreciated. In the current year, the bank undertook a revaluation that separated the values of land and buildings. Since the value of building was very low compared to land, and given the fact that the freehold land is not depreciated, the bank had a lower depreciation charge in the year as compared to prior year.

15 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2017 USD	2016 USD
COST		
At 1 January	5,866	5,866
Additions	-	-
At 31 December	5,866	5,866
AMORTISATION		
At 1 January	4,346	3,173
Charge for the year	1,173	1,173
At 31 December	5,519	4,346
NET BOOK VALUE		
At 31 December	347	1,520

16 TREASURY DEPOSITS

	2017 USD	2016 USD
Denominated in Somali Shillings	118,606	202,348
Denominated in United States Dollars	32,873,839	4,700,537
	32,992,445	4,902,885

The bank holds accounts for and on behalf of the Government in accordance with the Central Bank of Somalia Act, 2011. Government includes the Federal Government of Somalia, selected regional authorities and salary payment accounts for current and former employees and parliamentarians.

17 DEPOSITS FROM BANKS

	2017 USD	2016 USD
Demand deposits	6,037,790	1,869,071

Commercial banks hold demand deposit accounts with the Bank to facilitate settlement of inter-bank transactions

	2017 USD	2016 USD

18 SECURITY DEPOSITS

Performance security to undertake banking and forex business in Somalia	840,000	840,000
	=======	=======

In accordance with Central Bank of Somalia Act, 2011, every person licensed to carry on money remittance business shall maintain with the Central Bank, a security in the sum of United States Dollars 60,000 or its equivalent in Somali currency, or such other amount as may be prescribed by the Central Bank by regulation. The bank did not register any new money transfer bureaus in the year.

	2017 USD	2016 USD

19 MICROFINANCE GRANT

Microfinance Grant	3,000,000	3,000,000
	========	========

In September 2014, the Federal government of Somalia received a USD 3,000,000 interest free grant from the Kuwait Fund for the Arab Economic Development. The purpose of the fund is to provide micro-finance funding to small business in Mogadishu in order to support the growth of the Somali private sector. Part of the grant was disbursed to Commercial banks as loans in the current period (Note 12).

	2017 USD	2016 USD

20 OTHER PAYABLES

Other payables and accruals	1,763,028	288,503
	=======	======

21 CAPITAL REQUIREMENTS

The authorized capital of the Bank is determined in accordance with Law no. 130 of the Central Bank of Somalia Act of 22 April 201 that prescribes that the ownership of the entire paid up capital of the Bank shall be vested in the Ministry of Finance. The paid up capital of the Bank shall not be reduced at any time. The authorized capital of the Bank may be increased by such amounts as may be proposed by the Board and approved by the Ministry of Finance.

As at year end, this section of the Act had not been implemented hence the prescribed capital for the bank had not been set.

22 NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before taxation to cash generated from/(used in) operations

	2017 USD	2016 USD
Profit/(loss) before taxation	372,628	(885,859)
Adjustments for:		
Loss on disposal of motor vehicles	-	2,200
Depreciation	272,803	672,915
Amortisation	1,173	1,173
Working capital changes:		
(Increase)/decrease in receivables	(19,132)	70,989
(Increase)/decrease in Loan advances	(1,200,000)	-
Increase/(decrease) in deposits from banks and treasury	32,258,279	(5,123,786)
Increase in sundry deposits	-	180,000
Increase/(decrease) in other payables	1,474,525	(50,348)
Cash generated from/(used in) operations	33,160,276	(5,132,716)
	=========	=========

(b) Analysis of the balances of cash and cash equivalents as shown in the statement of financial position and notes

	2017 USD	2016 USD
Cash balances (Note 9)	18,569,175	8,436,343
Deposits and balances due from banking institutions (Note 10)	29,759,743	7,393,828
	48,328,918	15,830,171
	========	========

23 CONTINGENCIES AND COMMITMENTS

Given the development and security situation in Somalia, as well as difficulties in obtaining all relevant historical transaction data and relevant entity accounting documentation and agreements, contingent assets and liabilities may exist.

In the current period the bank has identified a specific contingent liability relating to loans which the government of Somalia historically received from the International Monetary Fund (IMF). The loans were received before the collapse of the Somali government in 1992. In 2019, IMF requested the Central Bank of Somalia to reflect the IMF position of Somalia in the central bank's statement of financial position. IMF holds the view that since Central Bank of Somalia Currently acts as Somalia’s “Fiscal Agent” and “Depository” with the IMF, the bank should reflect the IMF position on its statement of financial position.

The bank is in discussion with the government of Somalia on whether these loans should be disclosed on the statement of financial position of the bank and, if so, whether the government will provide an offsetting asset. As at the date of our audit report, these discussion had not been concluded upon.

24 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank acts as fiscal agent to the Government in accordance with the Central Bank of Somalia Act. Government includes the Federal Government of Somalia, selected regional authorities and salary payment accounts for Parliamentarians. Other than transactions and balances in the normal course of business with the Government, there have been no significant transactions with related parties during 2017, nor are there known significant assets or liabilities with related parties as at 31 December 2017 (2016 – Nil).

25 INCORPORATION

The Bank is incorporated under the Central Bank of Somalia Act, 2011 (the Act).

26 CURRENCY

These financial statements are prepared in United States Dollars.